1437 – 2016

«Show us the straight way.»
Surat Al-Fatiha, 1:6 Holy Quran

مجلة عالم
'Alim
The Shari'ah Scholar's Journal

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Year 5 Issue 10 - Quarterly 2016 • Switzerland CHF 10,00 - Others $ 15,00

www.alwarraq-finance.com

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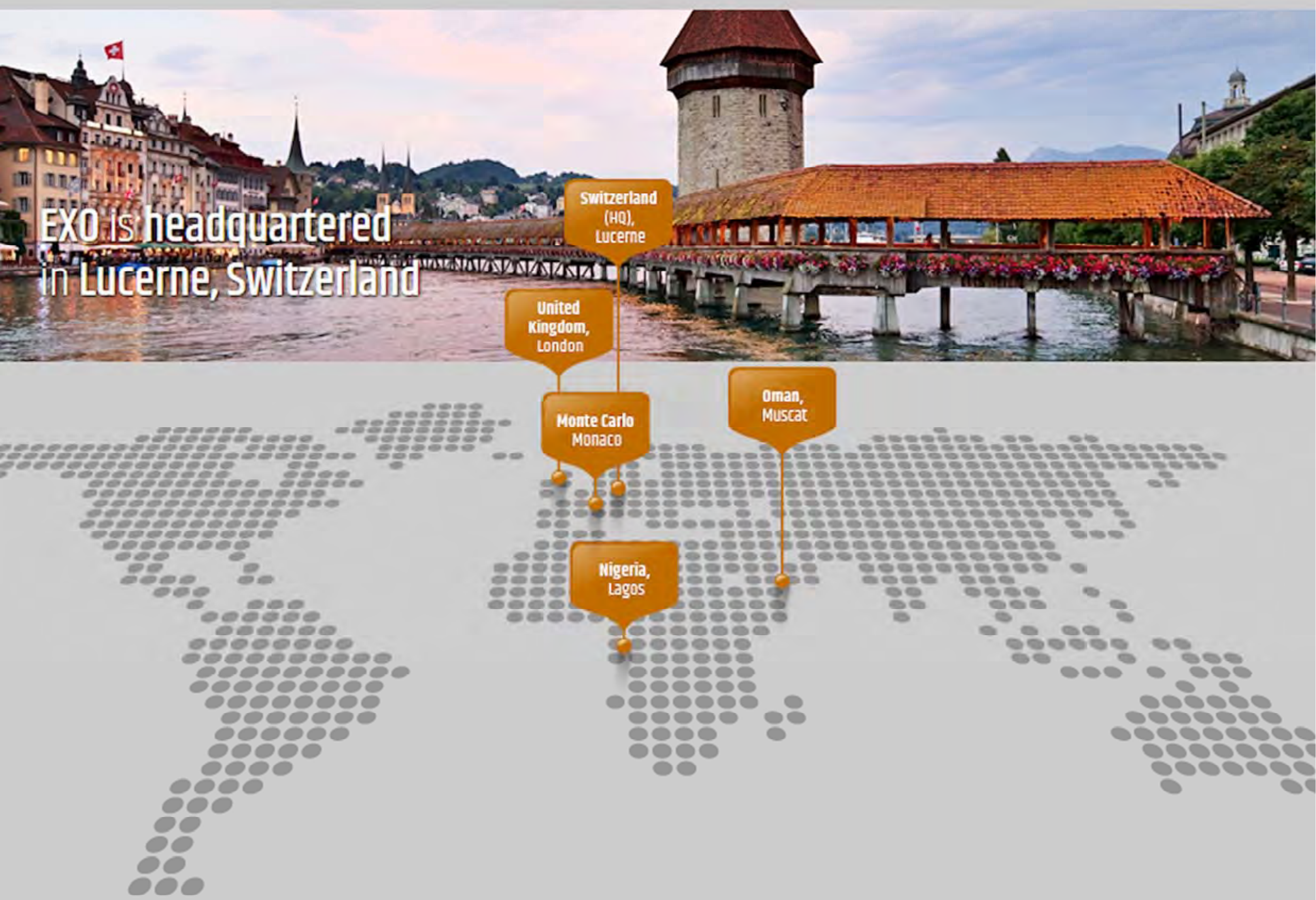

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Editorial

Alberto Di Gennaro
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Dear Readers

The rapid growth of Islamic banking and the emerging global market for Halal products and services represent the tip of the iceberg of the impact of Islam on commerce, a convergence which we believe is destined to be one of the defining factors of the coming decades.

These two industries are effectively the twin cornerstones of the Halal Market economy. By this, we are referring to a dynamic market arena for Halal products and services, trading according to halal transactions and contracts, using – ultimately – halal currencies.

The two major components of this market are Halal food and Islamic finance. These two elements represent an emerging market force that is effectively the direct result of the impact of Islam on commerce.

These two – food and finance – are not separate markets. They are rather two faces of one coin, with similar developmental histories and with many parallels. Both began out of the need of the Muslims to have Halal goods and financial services. Initially, both served a primarily Muslim market.

This has been basically paralleled by the development of Islamic banking. Initially developed by the Muslims to serve the needs of the Muslims, the major banking houses around the world, mostly from the non-Muslim world, have been quick to recognise the potential returns.

Islamic banking is a work in progress, not a finished product. Like the market for Halal products, it is a fledgling industry now developing global standards. Both Halal food and Islamic finance are driven by two dynamic – and sometimes opposing – forces that fuel their growth and determine their shape; the desire for growth and innovation – and therefore market share – and the need to remain within the parameters of the Shariah of Islam.

Recent geopolitical currents have driven Islam firmly into the public awareness, most of it negative, but that is not necessarily a drawback. Both Halal food and Islamic finance are riding on this wave of heightened awareness and curiosity, which is not about to diminish.

Halal products and Islamic finance are the two main components that comprise the impact of the Islamic Shariah on the world of commerce.

One of the perceived weaknesses with the Islamic banking sector is that it is not connected to any real market or industry; it is still, like the riba-based banking system, still primarily concerned with 'making money' as opposed to promoting trade and production. As an industry, it is still focused on the same issues as the riba-based model. The development of the Islamic banking system is a work in progress. It is only a step. The danger is that it will remain a banking-based financial model instead of a trade and production-based model.

It is time that the Islamic banking industry looked more closely at the role that it plays in promoting industry and trade.

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Could Islamic Finance Lack a Certain Degree of Credibility?

Islamic finance expect to close the credibility gap

By Prof. Aly Khorshid

Islamic banking and finance sector risks losing a golden opportunity to demonstrate an alternative system that could prevent a future credit crunch and share risks. With the conventional banking sector slowly coming to terms with its high-profile collapses and bailouts, while the Islamic sector suffering only mild aftershocks.

The question come to mind is: why are savers and investors not flocking to sharia-compliant banking? Could Islamic finance lack a certain degree of credibility? And if so, why?

The conventional banking sector has many years of experience, regulation and business culture behind it, whereas the Islamic sector without such a background, reached about $1.9 Trillion in assets worldwide in only 25 years. That certainly looks impressive, but it still represents less than 1.2% of banking assets globally, which makes the question of why many investors are still lacking trust in the system all the more important.

The conventional financial system has evolved greatly over the last two centuries and has contributed a great deal to the development of not only the Western world but also to that of a substantial number of developing countries. The mention of Islamic finance raises the question of whether there is a strong rationale for the establishment of a parallel system. The rationale would exist only if it could be shown convincingly that the Islamic system is capable of addressing successfully some of the problems that the conventional system has been unable to address. There is general agreement that every system must ultimately lead to the wellbeing of all people. One of the measures that Islam has adopted for ensuring greater justice for all is to introduce the principle of risk-reward sharing instead of interest in financial intermediation.

While the conventional financial system has generally been considered to be superior with regard to efficiency, certain conventionally structured capital market products (e.g. derivatives products) led to the financial crisis of 2008–09.

Aly Khorshid

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The introduction of the minimal-risk Islamic financial system over the past 10–15 years has added a healthy dimension to the international financial system. In addition to injecting greater justice into the system it has also helped make the financial system healthier and more stable by adding greater disci-pline into it.

A large number of Islamic financial institutions have been established worldwide and Islamic financial services are now available in most jurisdictions around the world. These institutions are playing an important role in catering to the financial needs of a wide spectrum of society. The innovative products they have provided have not only widened the coverage of financial services but also deepened the financial markets. Nevertheless, the system is still in its initial phase and thus has a long way to go before it can optimize efficiency and enable Muslims to be confident that these institutions have made headway in the realization of the maqasid al-Shari'ah (the objectives of Islamic law).

The conventional financial system has a code of ethics and conduct to which all key personnel, including management, are accountable. Otherwise the system could not have survived and expanded to the level it has reached. It is therefore imperative for the Islamic financial system to become institutionalized and properly regulated not only by institutions' internal regulatory boards and authorities but also by external, accountable Shari'ah boards. This makes it necessary to evaluate the performance of modern Islamic banking and Islamic financial institutions regularly and have the Shari'ah board members transparent, accountable, and adequately qualified in terms of experience and ongoing education.

Sharia advisors regulate Islamic banking, who are supposedly jurists specialising in Islamic law and economics. Their job is to direct, review and supervise activities related to Islamic finance to ensure that they are in compliance with sharia principles. However, they are not accountable for their actions - that is the responsibility of the banks that employ them. Sharia board members' responsibilities, qualifications, ethos, commitment and social responsibility can therefore be unknown or questionable, when they should be identified, regulated and accountable, both to the organisation they represent and to those affected by their decisions, which ultimately shape the Islamic finance system. Anther problem is the opaque manner in which advisors are appointed. It is based largely on recommendations and friendships and there is little in the way of checks on qualifications or ability. But as they will rarely have to make an important decision, this hardly matters, as we shall see.

Shari'ah Board Accountability, The need for a new breed of scholars

The Islamic finance system was created by a group of Muslim intellectuals, who in good faith developed an Islamic financial structure that can withstand turbulences in global economic systems, but they never thought that profiteering scholars many of whom now sit on numerous Shari'ah boards across the region and the world would hijack the system. This exclusive membership with its stringent rules has stalled cross association with traditional investors looking to diversify their portfolios. An organized reform of Shari'ah boards will open the doors for contemporary scholars to bring about modern change in Islamic finance and reveal its true identity an excellent safety net against financial crisis.

One of the areas needing closer inspection is Shari'ah board accountability. Firstly, it's not accurate to say there is shortage of qualified Shari'ah board members. Graduates of 'Islamic Studies' may attain the qualifications necessary to sit on Shari'ah boards, but they ultimately find it difficult to crack that door open because the 'Old Guard' is protecting their personal interests under the self-propagated pretext of having the proper experience and qualifications. But ironically, it is they who most need to gain experience in the workings of a complex world economy; new blood is and remains the only hope for Islamic finance to become an alternative to the conventional system.

Education It has also become clear that there is no program in place for educating and training the new generation of Shari'ah board members. Shareholders and clients of IFIs expect their investment to be protected by professionals adhering to strict standards of corporate governance. To protect the system from abuse and fraud there must be corporate governance in which the IFIs are directed, controlled, and forced to adopt structures and processes which incorporate the values of fairness, transparency and accountability.

The practical function of corporate governance is to put in place a system which will deliver a company's business objectives to increase shareholder value and offer efficient, accountable services to clients and the public at large, whilst managing risk. IFIs share the same practical and business objectives, but are subject to an additional layer of compliance with Shari'ah rules and principles. IFI objectives are not only to seek to offer Islamic finance services but also to make a profit, but only in a socially responsible manner.

Sitting on a board demands competence and an understanding of both complex mathematic concepts and immutable Quranic tenets. With the current generation of board members ageing, education of the next is therefore a vital and urgent step in the process.

The system must be changed; there are enough brilliant minds throughout the Islamic world and global finance to make a difference. First, The most pressing remedial measure is to limit the number of boards a member can sit on to one, and attendance should be part of the deal. Second, board membership should not be a guaranteed job for life; members' continued employment should be dependent on biennial elections. Third, board members must have a noticeable effect on the bank's organisation; this can include product development and training. Fourth, corporate governance should be strengthened to include sharia board members' accountability, just as boards of directors are accountable. And finally, the veil of secrecy needs to be lifted on members' appointment, qualifications, activity and performance; relevant information must all be openly accessible and transparent.

Spread too thin

Another problem is that such a small number of advisors are expected to serve an expanding sector. Instead of training new, young talent, the existing members are spreading themselves thinly around the world's sharia boards: more than 70 board each in several cases. Financial institutions use these 'celebrity' names in their marketing materials to boost the self-importance and supposed credibility of both parties. Inevitably, the decision-making process is being squeezed in terms of time and commitment because it would be impossible to give a reasonable amount of time to so many boards. Important decisions will go on being rubber-stamped until a major change takes place, and it will not happen from within as long as board membership is such a lucrative business.

So who has the power to change the system?

Corporate governance of Islamic banking is torn between the Islamic banks' national central banks, and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and the Islamic Finance Services Board (IFSB) on the appointment of the sharia board members. The IFSB recently produced a detailed draft on governance that has no mention of accountability, which sums up the state the sector is in and explains why many Western bankers see Islamic institutions as a risk too far.

Basel III regulations and Islamic Banks

Many Islamic financial institutions are finding they already exceed the requirements with above-average Tier 1 capital (13% capital adequacy), strong customer deposits and much lower levels of leverage Islamic banks will not be looking for additional capital. In fact Islamic banks experience excess liquid cash that due to absences of suitable Shari'ah compliant products globally either long or short term investment. Ethics of the Shari'ah and conventional financial systems

Basel III regulations will affect Islamic banks in the same way as with conventional banks

Basel III struggles to define liquid assets, The liquidity coverage and net stable funding ratios are intended to ensure that Basel III fills the gaps left by the previous Basel accord. But defining suitable liquid assets is proving difficult.

Islamic finance finds liquidity management solutions the launch of an International Islamic Liquidity Management Corporation is a step to resolving a long-standing weakness of Islamic finance, but there is still much work to be done. The issue of liquidity, Sukuk issuance popular liquidity instrument to fulfill part of the gap in the market make Basel III compliance possible.

Islamic banks have not been spared by the global financial crisis; many were exposed to risky expansion plans and high-risk concentrations, in particular in the real-estate sector. Islamic Banks have limited exposure to the Global banking avoiding excessive risk in high-risk derivative products traded in the conventional banks. Most sharia-

compliant institutions have considerably higher capital adequacy ratios than conventional banks, which create credit risk problem. Islamic finance offers limited options to raise alternative forms of capital and so results in a lack of subordinated debt in sharia-compliant form, as well as fewer preference shares. Islamic banks have limited use of derivatives and securitised structures affect their levels of capital adequacy, also, the lack of leverage in most Islamic banks means they will not be obstructed by the leverage ratio of Basel III.

The Basel III Committee's package of reforms will increase the minimum common equity requirement from 2% to 4.5%. In addition, banks will be required to hold a capital conservation buffer of 2.5% to withstand periods of stress, bringing the total common equity requirement to 7%, Islamic banks are among the best capitalised banks in the world, and historically comply with inflexible standards of capitalisation. The structure of Islamic banking is simpler, more tangible and easier to understand in many ways, These attributes are strengthened by sharia boards headed by scholars who only approve new deal structures and business activities if they comply with sharia principles. Basel III is unlikely to fundamentally change the way Islamic banks operate, they have more immediate challenges, such as consolidation and increasing profits. But for some Islamic banks, the regulatory framework will offer an opportunity to prosper and strengthen their posit

CORPORATE GOVERNANCE IN ISLAMIC BANKING AND FINANCE

Islamic finance is a nascent industry, with a small share of the global market – about 1.2%. However, Islamic finance is benefiting from a number of favorable structural and cyclical drivers: strong growth in the GCC, Asia, and Africa; positive demographics of young and rapidly growing populations; and a growth in the preference of savers/investors towards Islamic finance in Muslim countries, partly due to a reawakening of cultural and religious identity. The rapid growth may have taken some by surprise, and the state of corporate governance might stand as evidence of this.

Corporate governance aims to provide institutions with a body of rules and principles to ensure that good practice, guides the overall management of an institution, covers incentive structures to address principal–agent issues, ensures that executive management serves the long-term best interests of the shareholders as well as the stackholders and ensures sustainable value of the company in conformity with the laws and ethics of the country.

Islamic banks are subject to an additional layer of governance since the suitability of their investment and financing must be in strict conformity with Islamic Law. For this purpose, Islamic banks employ an additional layer of governance, the Shari'ah advisory board. All the complex factors involved in balancing power between the CEO, the board, the shareholders and the Shari'a board members can be considered parts of the corporate governance framework. Tasks include auditing, ensuring Shari'a compliance, selecting officers and advisors, remuneration of management and advisors, balance sheet and off-balance disclosure and ensuring transparency.

The necessity to find the right Islamic banking model

The steady growth of sharia-compliant assets implies banks believe in the future of the sector, The steady growth of Islamic assets that The Banker's Top Islamic Financial Institutions survey has recorded is demonstration to the confidence that banks have in the future of the sector, also growth does not guarantee profitability. For local banks in Muslim-majority countries such as the Gulf States and Malaysia, Islamic banking has cultural and political imperatives.

In that context, recent developments at HSBC, the largest global player in Islamic finance, are inauspicious. In October 2012, HSBC effectively shut down its subsidiary HSBC Amanah, which had been the second largest Islamic window in the world, with sharia-compliant assets of $16.7bn. The bank will continue providing universal sharia -compliant banking for clients in Malaysia, Indonesia, and in Saudi Arabia through Saudi British Bank, in which HSBC owns a 40% stake. Global Islamic wholesale banking and Sukuk capital markets, in which HSBC is the market leader, will still be offered through subsidiary HSBC Saudi Arabia. HSBC will retain majority of Islamic finance revenues at group level.

Conventional banking may have taken a battering recently, but it remains years ahead in terms of transparency, due diligence and legal adherence. Excessive and inappropriate activities do of course take

place in conventional banks but if they are detected, the result to individuals and institutions can be dire. Islamic board members, accountable to no one, can continue with impunity so long as they remain within the laws of the lands in which they operate. As well as the economic impact of such a relaxed attitude, there is the risk that devout Muslims are being misled when they are told that their accounts are run with strict sharia adherence at the forefront.

In conclusion, does the Islamic banking sector have the nerve and the will to enact the massive changes necessary, given that the existing system is of immense benefit to the sector's narrowly based leadership? If enough serious thinkers begin to make them selves heard, perhaps the bankers will realise that the party is over. They will have to choose whether to be part of the change or to move on before the pace of change overtakes them. Malaysia sets Islamic finance example, Malaysia leads the world in providing a sharia-compliant environment for savings. Islamic finance looks to prairies new phenomenal of growth rates, Islamic finance is increasingly looking beyond Sukuk and property investment to growth areas such as renewable energy and healthcare

The Case Against The Islamic Gold Dinar

By Professor Murat Çizakça

Recently, there has been an increasing amount of publications, conferences, even a campaign, about the re-introduction of the Islamic gold dinar. The proponents of this idea, known as the denarists, particularly active in Malaysia, advocate that this country as well as the whole Islamic world "urgently" return to the Islamic gold dinar.

They argue that if this return is achieved, nearly all the ills of modern economies such as rampant inflation, credit crunches, stagnation, unemployment etc., which they associate with the present paper money system, would be solved. Some scholars also argue that since the Prophet (SAW) used coins, it would be only appropriate for Islamic countries to transform their currencies into gold dinars.

Let us start with this argument first. First of all, we need to understand what the overall purpose of the Prophet was when he condoned the use of coinage.

Verses from the Qur'an as well as a number of ahadith make it perfectly clear that, there was a divine plan to make Mecca the global hub of world commerce.

For this, the first task was to catapult the Islamic community from the age of barter to the age of monetized trade. The Prophet did this with two ahadith.

While barter was thus declared as a form of riba, trade with money was approved and encouraged. The Prophet used Byzantine and Persian coins.

Authentic Islamic coins were introduced later.

Since paper money had not yet been invented during the Prophet's time, he couldn't have used such currency even if he had wanted to. Therefore we need to ask, would he have wanted to use paper money, if he had any choice? Let us imagine for one minute that the Prophet had the choice between coinage containing gold or silver and paper currency. Which one would he have chosen and on what basis would he have made his decision? It is my contention that he would have thought of the Qur'an and would have based his decision upon the inspiration he obtained from the Word of God. The Qur'an does not ordain Muslims to use this or that currency but does provide a powerful clue: the prohibition of the rate of interest. Obviously, it is based upon this clue that he would have tried to reach a decision. We now know, with hindsight that while paper money fulfils the ultimate Islamic goal of zero percent rate of interest, coinage does not.

Now, fast forward 14 centuries: as it is well known, the Japanese interbank interest rate reached zero rate of interest already in 1999. Japan was followed by several other western nations during the latest crisis. On July 30, 2010 the London interbank offered rate on three month dollars was fixed at 0.46563 percent.

Murat Çizakça

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He has authored numerous books including Islamic Capitalism and Finance.

Although, this was obviously unintentional, indeed, none of these countries reduced their rate of interest to zero percent for religious or ideological reasons, they nevertheless demonstrated that it is possible to bring into being an economy with zero rate of interest using paper money. The question boils down now whether this could have been achieved with coinage. I doubt it; because, every coin has two different values, face value and intrinsic value. Face value, which we may call “fiat value”, refers to what is written on it and is determined by the power of the state which declares it legal tender, while the intrinsic value refers to the cost of producing the coin plus, more importantly, by the value of the metal contained in it. The intrinsic value of the coin is thus primarily determined by the global commodity market, where equilibrium prices of gold or silver come into being.

Under normal circumstances, face value should be greater than or at least equal to the intrinsic value. But this is not always so as will be explained below.

Let us make two assumptions now. First, let us assume that a government with Islamic inclinations decides to reach zero rate of interest. This follows directly from the interest prohibition in Islam.

Since most economists agree that interest rate is actually the price of money, interest prohibition means that this price should be zero.

Assume further that gold coinage constitutes the currency of the country and the Central Bank is ordered to take all necessary measures to reduce the prevailing interest rate to zero percent, regardless of any macro-economic consequences.

My hypothesis is that whereas the Japanese Central Bank reached this level without any such intention with paper money, the Central Bank of an Islamic country using coinage as its currency, cannot do so with all its good intentions.

Indeed, the Central Bank can adjust all the macro-economic variables under its control to reach its target of zero ate of interest but would find it extremely difficult, even impossible, to do so. This is because of the intrinsic value of the coinage, which is determined not by the Central bank but by the global demand and supply for the metal that is contained in the coin.

The hypothesis that coins would always have a positive rate of interest is confirmed by monetary history. Genoa aside, where a one percent rate of interest had been observed during the seventeenth century thanks to very special institutional factors, in general, historical rates of interest never fell below three percent in economies using coinage. Indeed, a zero percent rate of interest has never been recorded throughout history in monetary systems using coinage.

At this point we may ask, if there is any fiqhi objection to the use of paper money. Some of the most respected classical Muslim scholars, particularly Mohammad al-Shaybani, Ibn Kayyim and Ibn Taymiyah did not limit currency to gold and silver coinage only. Ahmad Ibn Hanbal ruled that there was no harm in adopting as currency anything that is generally accepted by the people. Thus, these scholars, among themselves, wide opened the way for Muslims of future centuries to utilize paper money. Leading contemporary scholars like Yusuf al-Qaradawi and Muhammad Taqi Usmani are also of the same opinion.

There is a further complication: ceteris paribus, not only coins would always have a greater than zero price, i.e., a positive rate of interest, their circulation in the economy would also be affected in the long run by the price trends of precious metals in world markets. We will have more to say on this below.

The mechanics of an inflow or outflow of gold into a country should also be considered. An inflow, ignoring reasons, would lead to inflation and an outflow to depression.

It is for this reason that in history most European nations were obsessed about ensuring that no gold would flow out of the country. Gold inflow, however, was encouraged as it expanded the economy. This Europe-wide doctrine was called mercantilism and was the cause of many wars between mercantilist nations. This is another very dangerous implication of introducing the gold dinar.

Ahamed Kameel Mydin Meera, who is the main proponent of the gold dinar, has argued that money creation would not be possible in a fully gold backed system. With money creation thus prevented, inflation too would be avoided.

The problem with this argument, like all the other arguments of the denarists, is that although they advocate a return to a system that existed in history they have not done their homework and studied how the system they are proposing has actually functioned in history. Let us now make up for this deficiency and observe if indeed in history currency systems based upon coinage have been able to keep money supply stable and therefore avoided inflation.

If we study historical data, the first thing we note is that inflation was well and alive in the past. Indeed, throughout Europe, there was massive inflation in the period 1440-1760, with the most rampant inflation being observed in the late sixteenth and early seventeenth centuries.

Therefore, the claim made by another denarist, Umar Vadillo that “1400 years ago, a chicken cost one dirham. Today, it still costs one dirham" invites incredulity. I do not know the details of Mr.Vadillo's calculations, but since all serious works done by economic historians indicate otherwise, I have grave doubts. Indeed, during the period 1440-1600, sheep, candles, wine, beer, beef and wheat prices expressed in gold or silver coins exhibit a massive inflation all over Europe.

To give some examples; in Strasbourg, France, the average price index of rye went from 100 in the fifteenth century to 350 in the seventeenth. Meat went from 100 to 250. In Saxony, Germany, the two percentages were respectively 350 and 250. In England, during the period 1450 to 1750 the general price index went from 100 Mr. Vadillo may, however, argue that the prices I have given above are European prices and therefore are not relevant for the Islamic world. In that case, we can look at prices in the Islamic world as well. Thanks to the more than four hundred million documents protected in the Turkish archives we are well informed about the Ottoman prices. These data collected from the waqf and palace kitchen books indicate that prices expressed in grams of silver reached their peak in Istanbul during the first quarter of the seventeenth century at approximately 80 to 100 percent above their levels in the base year of 1489-90.

In this period two types of coins constituted the prevailing currency in the Ottoman economy; the gold sultani and the silver akçe.

The problem with the bi-metallic system, where coins containing gold as well as silver circulated, was that money supply was never fixed as Meera would like us to believe. On the contrary, money supply was subject to fluctuations both caused by chance discovery of gold or

silver deposits as well as deliberate debasements. While money supply increased during the late sixteenth century due to the discovery of huge silver deposits in Potosi, South America, it continued to increase further during the next, seventeenth century, primarily by debasements.

Debasement occurs when a government obliged to increase the money supply mints new coins with lower metal content.

Put differently, more coins would be cut from a given amount of precious metals. This is of course, tantamount to increasing the money supply. Thus, money supply in a bi-metallic system was by no means fixed. It fluctuated in tandem with the world -wide discovery of precious metal deposits as well as the need of the state for additional money and the consequent debasements. With money supply not fixed and tending to increase, it was natural that inflation would occur. There is solid evidence that, indeed, this was the case.

As explained above, data obtained from throughout Europe as well as the Ottoman Caliphate all tell the same story of rapid inflation. All of these countries were using gold or silver coins. Thus we conclude, having gold or silver based coins as the currency of a country does not in any way provide a protection against inflation.

That not only the American silver from Potosi but also debasements were behind this inflation is demonstrated by numismatists, who have examined the precious metal content of European coins.

They have informed us that all the main coins of Europe lost their silver or gold content. In the period 1440-1760 the coins of England, Russia, Germany, France, the Netherlands, Austria, Genoa, Venice and Spain, were all debased and their precious metal contents were reduced - some drastically some ata less extent. To give some specific examples: in this period even the pound sterling, the most stable currency in the world, lost 43.42 percent of its equivalent weight in silver. The French livre tournois lost 82.68 percent, the Genoese Lira 72.98 percent, the Dutch guilder 68.74 percent.

In case, the reader wonders about the Islamic world, it should suffice to note that the Ottoman Asper (akçe) was one of the most frequently and drastically debased coins in Europe.

In 1585-86 it was drastically debased and lost 44 percent of its silver content. One akçe weighed 0.68 grams in 1584 and only 0.23 grams in 1689.

Nor was debasement a special curse of the early modern period. It was observed throughout history. Consider, for instance, the original Roman denarius, which was 95 to 98 percent pure silver weighing 4.5 grams by the decree of Caesar Augustus in 15 B.C. By the reign of Nero, its weight was down to 3.8 grams.

By the second half of the third century, some 270 years after its initiation, it was merely 2 percent silver.

The most important universal reason for these debasements was warfare. When a government suddenly faces an external threat, it has to increase the number of men under arms and improve its armed forces – a very expensive affair. More soldiers, more and better arms - all need to be paid in cash. If cash is in the form of gold or silver currency then the solution is to cut new coins from a given amount of precious metal. In the year 1585, for example, during the long war with Iran, the Ottoman government wanted to nearly double the money supply by ordering the mints to strike 800 akçes from 100 dirhams of silver whereas the earlier standard had been 450 akçes per 100 dirham.

Another important reason for debasement was the so-called seigniorage. This was the revenue received by the ruler during the debasement process. Governments desperate to increase the available money supply to cover their emergency

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expenses or pay their debts, however, faced a further difficulty with the coinage.

The government, wishing to avoid a deflation, would have to respond to all this by increasing the money supply. In coinage systems, this is done by debasement, i.e., by reducing the gold content of the coin, or the G/TW ratio.

The government does this by striking more coins from a given amount of pure gold. In short, the government issues new coins with lower gold content. But this too would put in motion the dynamics of the Gresham Law.

Indeed, when the public realize that new coins with lower intrinsic value are being issued, they immediately would take out their old and better coins from the circulation and hoard them. Since the new coins issued would inevitably cause inflation and bring down the fiat value, the old coins would be either hoarded or melted. Consequently, “bad money” always drove “the good” out.

This is the famous observation made by Sir Thomas Gresham back in the sixteenth century. Known unfairly as Gresham’s Law, it is expressed as “bad money drives out the good”, and means that issuing new and lower quality coinage is actually a self defeating process. Indeed, new coins issued in order to increase the money supply to combat deflation or to cover the emergency expenses of the state, end up leading to the disappearance of the old coins altogether.

From the Islamic perspective Gresham’s Law has the additional harm that it encourages hoarding –a situation, strongly forbidden by the Qur’an.

Furthermore, unless the amount of new coins issued is much higher than the old coins that disappear, the disappearance of the old coins means a leftward shift in the aggregate money supply, which would increase the rate of interest – once again an undesirable situation for Muslims.

Another reason which would lead to an increase in the rate of interest with coinage is the cost of production of the coinage. Each coin costs a substantial amount to produce, which includes not only the global price paid for the gold/silver that is contained, but also the actual cost of transforming the metal into coins. Moreover, seigniorage that the state always takes should also be added to this cost. In short, the price of coin (rate of interest) is formed by three elements: the global price of bullion, the actual cost of production of the coin and finally the seigniorage. By contrast, the cost of production of paper money, in comparison to coinage, is negligible. Once again, the denarists are invited to think about the consequences of their proposals. Do they really want a monetary system that encourages Muslims to hoard and, even worse, through the workings of the Gresham’s Law ends up raising the interest rate?

Another huge disadvantage of the gold dinar is that among all the Muslim countries only Indonesia is an important producer of gold – 6.6 percent of the global production. Other Islamic countries are insignificant producers. This would put the Islamic world at the mercy of the significant producers (South Africa 11.8 percent, the U.S.A 10.4 percent, China 8.9 percent and Russia 7.2 percent).

The Islamic gold dinar would give these countries quite a substantial leverage to play havoc with the monetary system of Islamic countries – if they so wish, the largest producers can collude and play with gold prices and therefore, indirectly, the rate of interest in the Muslim world using gold coins. If such speculations are possible, this would create a huge uncertainty – gharar.

Now, gharar is a complicated concept. But Ibn Taymiya has shown that in a transaction involving two or more partners, mutually agreed shared risks are permitted and constitute no gharar, risks unshared and imposed solely on one of the partners are not permitted and constitute Gharar. This can be considered as a corollary of the prohibition of riba.The reason why the Islamic Gold Dinar may be subject to gharar and might be prohibited is that any speculation by the major producers of gold would not harm them but would harm the Islamic world. Risks would not be shared fairly by all transacting partners but only by the Islamic world. This is gharar of the worst sort – because we are not talking about an ordinary risk but a massive risk that would put the entire monetary system of the Islamic world in danger.

Conclusion:

We are now at a position to summarize the arguments presented above.

1. Combining the interest prohibition in the Qur’an with the rulings of Ahmad Ibn Hanbal, Muhammad al-Shaybani and Ibn Taymiya, some of the greatest classical jurists, we deduce the following position of Islam regarding money:

   Anything that is generally accepted by the public can fulfil the role of money.

   Thus money is, primarily, a medium of exchange and not a commodity. The price of this money (interest) must be zero.
2. Economic histories of early modern Europe as well as the Ottoman Caliphate have vindicated that money, indeed, is not a commodity but a medium of exchange. Economic historians have observed throughout history that the precious metal content of coins in the long run has always been reduced. Thus there is a natural tendency for money

to lose its commodity character, metal content, and to progress towards being a pure medium exchange. With the advent of paper money, the intrinsic value of money approached zero. With the e-money, which we transfer billions with the click of a mouse, it has become absolutely zero. Thus, the Islamic view that money is not a commodity but purely a medium of exchange is vindicated.

3. Japan as well as several other western economies, though inadvertently, showed that with paper money it is possible to reach to a state of zero percent interest rate – hence a zero price for money, Islamic position, is possible.
4. With coinage it would be much more difficult to reach this stage. This is because; every coin has two different values. While the fiat value can be controlled by the Central Bank, the intrinsic value is beyond such control.

   Indeed, for the intrinsic value to be zero, the global supply of gold should increase at such a rate so as to completely balance the demand for it – not a very likely scenario.

   Consequently, a return to coinage would compel a country into a position where zero rate of interest cannot be achieved. This is an un-Islamic position and represents not progress but regress.
5. Throughout history governments have increased the supply of coinage through debasement. This supply could also increase when new gold or silver deposits were discovered. In short, the supply of coinage was never fixed as the denarists claim.
6. It follows then that with money supply constantly changing, coinage cannot avoid inflation – another denarist claim that must be discarded. For those who are worried about inflation in the Islamic world, the solution does not lie in the type of currency in circulation but in granting central banks autonomy from the pressures of unscrupulous and short sighted governments.
7. Introducing the Islamic Gold Dinar, despite this pretentious name, is not only un-Islamic due to its worsening impact on the rate of interest, it is also of no practical value since it cannot control inflation.
8. Introducing the Islamic Gold Dinar would create unshared uncertainty, and therefore gharar, at a massive scale. Islamic law prohibits gharar.
9. Items 4-8 above indicate clearly that introducing the Islamic Gold Dinar would be harmful for the Islamic world and therefore constitutes mafsada.

   This means that attempts to introduce the Gold Dinar might be prohibited.
10. Finally, introducing a common currency for all Muslim countries accepted throughout the world is a noble idea, providing the currency in question is made of paper, not of gold or silver.

Building Genuine Islamic Financial Institutions

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1. Introduction: Contrasting Spirits

As Max Weber (1930, p. 18) has documented, 'Man is dominated by the making of money, by acquisition as the ultimate purpose of his life. Economic acquisition is no longer subordinated to man as the means for the satisfaction of his material needs'. This stands in stark contrast to the clear Islamic prohibition on the pursuit of wealth for its own sake; for example:

> *(Q9:34) They who hoard up gold and silver and spend it not in the way of Allah, unto them give tidings (O Muhammad) of a painful doom.*

In Islam, accumulation of wealth is permitted only for the purpose of spending in the ways prescribed by Allah. Pursuit of wealth for its own sake is not permitted. A more detailed discussion of this issue is given later in this paper.

1.1 The "Great Transformation" in The West

In the West also, in pre-capitalist era, the pursuit of wealth was not viewed favorably. According to the Bible, "Love of money is the root of all evil." Ownership of wealth was a concession to human weakness, and Christian monks who took vows of poverty were honored for this renunciation of the world. Dickens' popular tale about Christmas shows the miser Scrooge is forced to repent, and learns that spending on others leads to happiness.

Polanyi (2001) has documented the great transformation that took place in Europe as a result of the transition to capitalist economic structures. An essential element of this transformation was a dramatic change in the attitudes towards the accumulation of wealth. This change is captured in Shaw's dictum that "Lack of money is the root of all evil." This came to be widely believed in the modern capitalist era: the accumulation of wealth will create a Heaven on Earth, and solve all problems of mankind. Zaman (2010) gives a brief summary of the relevant arguments and history.

1.2 The Functions of Banks

As a result of this transformation, financial institutions designed to support the acquisition, hoarding, preservation, and accumulation of wealth came into being for the first time. Central among these institutions is the Bank, which did not exist prior to the legitimization of the pursuit of wealth. Among many others, Banks perform two key functions within a capitalist economy:

1. By offering a small profit (interest), they encourage savings and accumulation.

1. Furthermore, they collect savings from large numbers of small depositors, and transfer them to large investors, thereby causing an increase in concentration of wealth in the hands of the already wealthy.

Both of these functions are directly in conflict with Islamic teachings. Islam encourages spending on others:

> *2:274 Those who spend their possessions [for the sake of God] by night and by day, secretly and openly, shall have their reward with their Sustainer; and no fear need they have, and neither shall they grieve.*

Islam also discourages miserliness and hoarding of wealth. In addition to Q9:34 cited earlier, note:

> *104:2 [Woe unto him] who amasses wealth and counts it a safeguard*

Also, Islam is strongly opposed to concentration of wealth in a few hands. It encourages spending by the wealthy on others in numerous verses. The Quran (59:7) states that acquired wealth should be given to kindred, wayfarers, orphans and the needy so that "it may not (merely) make a circuit between the wealthy among you." This has been universally interpreted as an encouragement for the circulation of wealth, and an admonishment against concentration of wealth in a few hands.

Thus both key functions of banks that we have identified are directly in conflict with Islamic teachings.

1.3 A Paradox of Islamization

Many Muslim scholars have been convinced that Banks are necessary for the functioning of modern economic systems. On this basis, they have attempted to devise alternatives to Banks and Interest which would be compatible with Islamic laws. Some have simply declared that the Riba prohibited in the Quran is not the interest paid by modern banks. Others have devised more sophisticated equivalents of Riba, while trying to remain within the bounds of the Shari'ah. We argue that the answer to the question of whether Banks are necessary to modern economic systems is a paradoxical Yes and No.

Yes: Banks are Necessary Within a Capitalist Economy. If we consider the capitalist economic system as a whole, banks perform key functions within this system. One of these functions is to channel funds from those who have to savings towards the capitalist/investors in the economy. Banks cannot function without interest which is used to attract these deposits. Theoretically it is possible to replace this fixed and secure interest with a variable rate based on Musharka contracts. Practically, the experiences of Islamic Banks show that small depositors cannot accept this uncertainty and risk. Therefore, instead of the preferred Islamic form of Musharkah, transactions essentially equivalent to riskless fixed interest contracts form the core of Islamic Banking today.

No, the Capitalist Economy itself is not necessary: We cannot Islamize banks while functioning within a capitalist economy. However, there are many modes of economic organization radically different from capitalistic ones. Banks will not be necessary IF we change the entire structure of the economy to an Islamic one. Some confusion on this issue has arisen due to a widespread conceptual misunderstanding among Islamic Economists. In the second quarter of the twentieth century, many Islamic countries gained independence and sought to implement a suitable economic system. At that time the key debate was between Capitalism and Communism. Islamic scholars compared the two and noted that free markets and private property were closer to Islamic concepts than government ownership of capital, and socialized production. While this is true on a broad level, closer examination reveals radical differences between Islamic and Capitalist ideas of free markets and private properties. From the times of the Prophet S.A.W. markets have been subject to regulations which are not present in capitalism. Also, private property is viewed as a trust and a responsibility, whereas capitalists consider property as an absolute right. Taking these differences into account creates great differences between capitalist and Islamic views on economics. Some of these contrasts are presented in Zaman (2013, "Islam Versus Economics").

One consequence of this analysis is that genuine Islamic institutions cannot be built as components of a capitalist economy. More radical reforms are required. In order to make this idea plausible, it is necessary to provide the sketch of a genuinely Islamic alternative to current financial institutional structures. At the present, this sketch may seem

idealistic and impractical. It is important to note the current capitalist systems were similarly very remote and unrealistic when first conceived in the West. It was leadership, vision and power which led to the successful implementation of these ideas all over the world. Today, the Muslims need the courage to put forth and implement the bold alternative presented by Islam. Just as the leadership and vision of our prophet Mohammed S.A.W. changed the course of history, so the same opportunity awaits the Muslims today.

2. Contrasting Views Regarding Human Behavior

The key contrast between capitalism and Islam arises in response to the question what should we do with surplus (wealth in excess of our needs)?. In capitalist societies, one is encouraged to save this wealth, and to use it to generate even more wealth. This is one of the primary functions of Banks, to encourage savings and accumulation. However, the Quran answers this precise question very differently:

> *(Q2:219) And they will ask thee as to what they should spend [in God's cause]. Say: "Whatever you can spare."*

Kahf (2003) cites several examples where the Prophet SAW created (and also encouraged others to create) Awqaf – properties with revenues devoted to service of society. As we will demonstrate, corresponding to the spirit of generosity and spending on others, the central financial institution in an Islamic society is the Waqf – a trust or a foundation to provide social services to others. This difference in institutional structure arises from a fundamental difference in understanding the nature of human beings, and the objectives of social organization.

2.1 Economic Models of Human Behavior

The standard economic model of consumer behavior portrays human beings as cold, callous and calculating. Consumers are cold – pure utility maximizers are not susceptible to emotional decision making and impulse purchases. They are callous – they will seek personal benefits even if it harms others, being indifferent to feelings of others. They are calculating – not just satisfied with making a profit, they calculate it to the last penny and seek to maximize it. Although it is understood that this is an "idealization" and not an exact description, substantial efforts are made by economists to promote the idea that such assumptions are both empirically valid descriptions of human behavior, and also that this behavior is actually good for society.

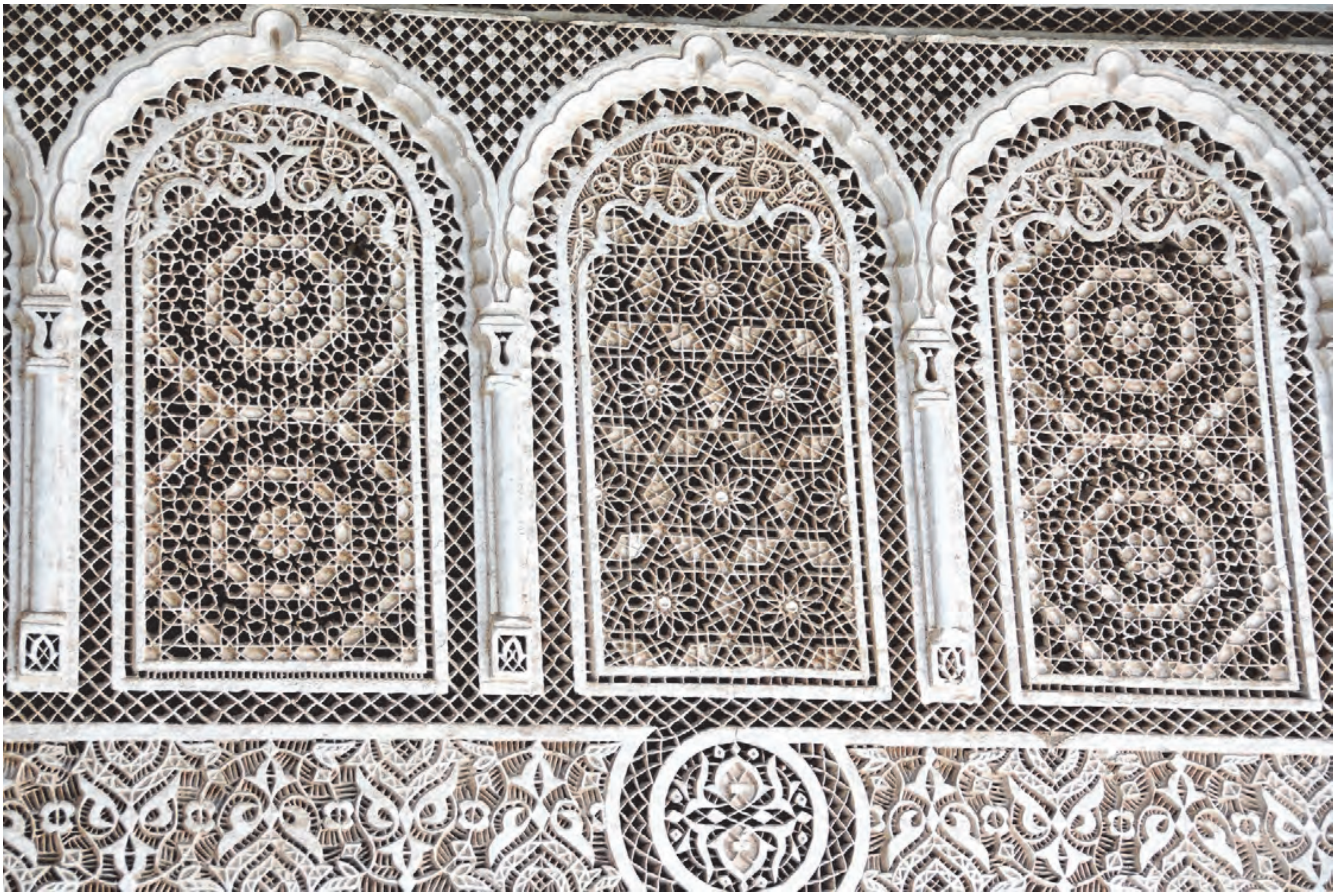
Lack of Empirical Validity: Lionel Robbins (1935) asserted that the utility and profit maximization assumptions of economic theory are "simple and indisputable facts of experience."Current economic texts continue this tradition of claiming that the theory of firms and consumers is "positive" – it is an objective description of observed behavior, rather than a normative description of what ideal rational behavior might look like. In fact, there is massive evidence that assumptions of neoclassical utility theory are strongly in conflict with actual human behavior; this evidence is summarized in a survey by Karacuka and Zaman (2013). Thus the economists model of human behavior, widely taught in leading universities all over the world, is not empirically valid.

Lack of Normative Validity: The second widely claimed assertion of economic textbooks is that maximizing agents within free markets create socially optimal outcomes. This is considered to be the message of the First Fundamental Welfare theorem of economic theory. For instance, a current leading economics textbook by Mankiw and Taylor (2007, pp. 7-9) asserts that:

> Why do decentralized market economies work so well? Is it because people can be counted on to treat each other with love and kindness? Not at all.…participants in a market economy are motivated by self-interest, and that the 'invisible hand' of the market place guides this self-interest into promoting general economic well-being

This idea is also fundamentally wrong. Evidence of the failures of the invisible hand, and a guide to additional literature on the subject is summarized in Amir-ud-Din and Zaman (2013).

Despite the fact that both of these assumptions about human behavior are wrong, capitalist institutions structures are built on the basis of these assumptions. At the level of individual, maximum freedom in all spheres (economic, political, social) is promoted as a key to fulfillment of worldly desires. At the group level, competition and survival of the fittest is promoted as the key to efficiency. This philosophy is best suited to a world of cold, callous and calculating individuals who have no concerns for an afterlife. Islam offers dramatically different



conceptions of human behaviors and correspondingly different prescriptions for political, social and institutional structures.

2.2 Islamic Concepts About Human Behavior

Islamic understanding of human behavior is substantially more subtle and sophisticated than that of the Western economic models described earlier. The Quran explains that acquisitive and greedy tendencies are embedded within human beings:

Q3:14 ALLURING unto man is the enjoyment of worldly desires through women, and children, and heaped-up treasures of gold and silver, and horses of high mark, and cattle, and lands. All this may be enjoyed in the life of this world - but the most beauteous of all goals is with God.

The tendency towards evil has been made part of the human disposition. As the prophet Yusuf AS states in the Quran:

12:53 "Nor do I absolve my own self (of blame): the (human) soul is certainly prone to evil,

It is this attraction of worldly goods and pleasures that are taken as fundamental within the Western canons of economic theory. It is assumed that the goal of economists is to help humans satisfy these desires.The principle of "consumer sovereignty" as expressed ina leading economics textbook by Samuelson and Nordhaus (1989, p. 26) states that economists "must reckon with consumer wants and needs whether they are genuine or contrived".

However, the Quran states that men are not bound to obey these tendencies, and in fact, must struggle against and overcome them to succeed. Allah T'aala has shown us the "two highways" of good and evil, and left us free to choose between them.

90:10 (We have) shown him the two highways (of good and evil)

73:19 Lo! This is a Reminder. Let him who will, then, choose a way unto his Lord

Those who surrender to their worldly desires choose the highway of evil, and will meet a bad fate. Those who overcome these worldly temptations and stay steadfast on the path to Allah will meet with a good fate.

79:37-41 For, unto him who rebelled; and preferred the life of this world; that blazing fire will truly be the goal! But unto him who shall *have stood in fear of his Sustainer's Presence, and held back his inner self from base desires, paradise will truly be the goal!*

Q28:50 who could be more astray than he who follows [but] his own likes and dislikes without any guidance from God?

Our life on the Earth is a test to see who chooses that pathway to his Lord, and who prefers the life of this world. Our goal as human beings is to choose the higher path, by fighting against the base desires, which have been implanted in our Nafs. This requires spiritual development, which can be achieved by various methods taught in Islam.The teachings of the Quran, personified by our Prophet SAW are concerned with spreading the good, by teaching humans how to behave well. The Quran clearly sets out the functions of an Islamic state:

22:41 (Allah will help) those who, if We give them power in the land, establish regular prayer and give regular charity, enjoin the right and forbid wrong.

Institutional structures of an Islamic society are designed to assist in this function, of making it easy for humans to choose the good pathways. Instead of promoting greed as a key to efficiency, Islamic societies must promote generosity and charity as part of their duties. There are several verses in the Quran condemning those who do not “encourage the feeding of the poor” – note the subtlety that it is not just the feeding of the poor, but rather the creation of a society in which all members are concerned about the feeding of the poor which is at issue. Thus in addition to generosity, Islamic societies must promote the spirit of cooperation. There are explicit Islamic teachings to create brotherhood, love among humans, cooperation, and a sense of responsibility for all members of society.

3. Generosity and Waqf

We can summarize the previous discussion by saying that capitalist societies promote fulfillment of individual desires within an institutional framework of competition. In contrast to greed and competition, institutional structures of an Islamic society promote generosity and cooperation. The number of Ayat in the Quran exhorting Muslims to be generous is greater than the number devoted to the four central pillars of salat, zakat, fasting and Hajj. As typical examples:

32:195 Spend your wealth for the cause of Allah, and be not cast by your own hands to ruin; and do good. Lo! Allah loveth the beneficent.

Similarly, the Prophet Mohammad (peace be upon him) said, "The generous man is near Allah, near Paradise, near men and far from Hell, but the miserly man is far from Allah, far from Paradise, far from men and near Hell. Indeed, an ignorant man who is generous is dearer to Allah than a worshipper who is miserly." [Tirmidhi]

In response to these commandments, Muslims have always been generous as a community. Even in present times, where Muslims as a whole are far from the practice of Islam, this continues to hold true. An ICM research Poll in 2012 found that Muslims were far ahead of all other communities in charitable giving. Similarly, a Pew Research Center survey in 2012 documents that large percentages of Muslims make charitable donations. Najam (2007) provides similar data on the generosity of Muslims, relative to other communities. Income adjusted figures would provide even stronger evidence, since the Quran has praised those who give while being themselves in need.

3.1 Historical Role of Waqf in Islamic Societies

The spirit of generosity is embodied in the form of the institution of the Waqf, which has played a central role in Islamic history. The provision of health services, education, and other social welfare functions was efficiently handled by the Awqaf, so that nearly everyone in need had access to these services. The extensive network of the Awqaf and their functions is documented in Kahf (2003), who also provides references to the sources of this information:

> Information extracted from the registers of Awqaf in Istanbul, Jerusalem, Cairo and other cities indicates that lands of Awqaf cover considerable proportion of total cultivated area. For instance, in the years 1812 and 1813 a survey of land in Egypt showed that Waqf represents 600,000 feddan (= 0.95 Acre) out of a total of 2.5 million feddan (Ramadan, p. 128); in Algeria the number of deeds of Awqaf of the grand mosque in the capital Algiers was 543 in the year 1841 (Ajfan, p. 326); in Turkey about one third of land was Awqaf (Armagan, p. 339); and finally in Palestine the number of
> Waqf deeds recorded up to middle of the sixteen century is 233 containing 890 properties in

> comparison with 92 deeds of private ownership containing 108 properties

Hoexter (1998) remarks on the extensive social services provided by these Awqaf in Islamic societies.

> Prior to the twentieth century a broad spectrum of what we now designate as public or municipal services, e.g., welfare, education, religious services, construction and maintenance of the water system, hospitals, etc. were set up, financed and maintained almost exclusively by endowments, was documented in this stage. So was the fact that very large proportions of real estate in many towns and in the rural areas were actually endowed property.

Sait and Lim (2006) write that the system of awqaf "succeeded for centuries in Islamic lands in redistributing wealth", leading to equitable outcomes and the circulation of wealth in accordance with Quranic injunctions.

3.2 Necessity for rRvival of Waqf

For complex historical reasons, this institution has become inefficient, ineffective and marginalized in modern Islamic societies. Sait and Lim (2005, Paper 7) write that "The eclipse of the endowment (waqf) has left a vacuum in the arena of public services, which the State has been unable to fill easily in many Muslim countries." The efforts to reconstruct Islamic societies must focus on re-vitalizing the institution of Waqf, rather than on the Islamization of western Banking. Many authors, including Kahf (2003) have noted the crucial role of Waqf in Islamic history, and have strongly recommended its revival as a key to the revival of an Islamic economy. Revival of the institution of Waqf depends on a key conceptual shift in understanding the role of the government.

The western form of Banking is not a genuine Islamic institution, in the sense that it is built to encourage and facilitate the spirit of hoarding, accumulation and concentration of wealth. Current efforts to Islamize banks by modifying the forms of banking transactions cannot affect the spirit of banking. This is why no institution analogous to the Banks have existed in the pre-colonial centuries of Islamic history. In contrast, the Waqf is a genuine Islamic institution, which embodies the Islamic spirit of generosity, and provision of service to the community for the sake of the love of Allah. These institutions performed a central role in provision of social services in pre-colonial times.

3.3 A Subtle but Radical Difference in Goals

A crucial difference between the Western approach to provision of social services and the Islamic one derives from the differing conceptions of human beings outlined earlier. Since Western economic theory assumes selfishness to be the basic characteristic of humans, the government must play a central role in the provision of social services. However, the Islamic government has the responsibility to promote and motivate excellence in human behavior. Rather than just feeding the poor, it must "urge the feeding of the poor." The fasts of Ramazan are designed to encourage empathy with the poor, and everyone is given the responsibility of taking care of the needy among his kin and among his neighbors. While the Islamic government is the provider of the last resort, it is private organizations of the awqaf which provided the vast majority of social services in the course of human history. Because these awqaf are run by local caretakers and take care of localized communities they have a wealth of local information which is essential to the efficient delivery of social services. Lacking this information, there is strong evidence that governments do not do well as direct providers of social service. The Islamic government must play an enabling role, encouraging and supporting local provision of social services; this will promote the feeling of responsibility, cooperation and community which is the goal of this method.

This fundamental issue needs to be highlighted because dominance of modern thinking has led to ignorance, even among Muslims. The goal of feeding of the poor is not directly poverty relief; this is a fringe benefit. Rather, the goal is the development of compassion, cooperation, and the attitude of obedience to the orders of Allah. That is why the dominant modern approach of Government provision of social service, which sacrifices the goal to obtain a fringe benefit, does not suit Islamic societies. A detailed discussion of this point is given in the Appendix of Zaman (2012, Lecture 1). Briefly, note that the Quran praises people who feed the poor for the love of Allah, and mentions that the purification of the heart is the objective of paying the poor due"

92:18 he that spends his possessions [on others] so that he might grow in purity

Western economics regards humans as inherently self-centered and cannot conceive of the goal of changing humans to become generous, as an object of economic policy. Obviously, this goal cannot be achieved if the government takes up the responsibility of feeding the poor. Historically, Islamic governments did not view themselves as responsible for the provision of the social services; these were handled by individuals and an vast network of Awqaf. In this way, everyone in the society could expect to be fed, clothed, housed, and educated, since that was the collective responsibility of the society. Whereas banks are designed to bring depositors the earning of this world, Waqf are designed to generate earnings of the Akhirah. This difference in spirit is the essential difference between Islamic and Western worldviews. Just as banks compete to find the best investments in Dunya, so the Awqaf compete to find the best investments for the Akhira.

One of the key insights from Islamic history is that social services should be provided locally, by communities of generous individuals who are encouraged to care for others and take responsibility for the needy in their neighborhoods. Western models remove this responsibility from individuals and shift the burden for providing social service onto the government. This is highly in-efficient for many reasons.

4. **Trust and dar-ul-amanah**

The prophet Mohammad SAW was known as Al-Ameen (the trustworthy), and the quality of trustworthiness is one of the essential characteristics of Muslims. Allah commands us to fulfill our obligations:

5:1 O ye who believe! Fulfil your undertakings.

The practice of entrusting property to others for sakekeeping was common among the nomadic Arabs, and the Prophet himself, was the recipient of several such properties. This then is a genuine Islamic practice, where property and wealth is entrusted to others for safe-keeping. There is a large number of laws of the Shari'ah dealing with the concept of trust. We will only deal with some basic issues related to this concept.

Currently, there is a lot of effort to create Shariah compliant versions of financial instruments and transacting in use in Western Banking. If fact, efforts at Ijtihad are necessary in a different direction. We need to create modern forms of the ancient institution of Amanah. The dominant form of money today is paper currencies not backed by any real asset. This is a financial innovation of the twentieth century, which has never before existed in the history of mankind. Firstly we need an Islamic ruling on whether or not this is a legitimate financial instrument. This paper is concerned with providing an initial outline, a sketch of an Islamic financial system. Detailed discussion of the Shari'ah issues involved is not possible here. Three major issues need to be resolved, to implement the concept of safekeeping of deposits in modern times. Two of these are discussed below. The third deals with the idea of accumulating wealth over time by savings, and is dealt with in the next section.

4.1 Betrayal of Trust: Money & Banking

The institution of safekeeping of deposits is an old one. Roots of modern banking go back to the mid seventeenth century, when goldsmiths found it increasingly profitable to utilized gold deposited with them for lending, investments, and foreign exchange transactions. The idea of gambling with other people's money is thus built into the roots of modern banking. Several major crises over the past century have caused misery to millions. Muslims who think that establishing banks in Islamic countries is essential to economic success are simply ignorant of the history of banking, which we briefly review.

Banks gambled with the depositors and money and lost in a stock market crash that led to the Great Depression of 1929. Millions lost their life savings, jobs, and incomes as production plummeted. Strong banking regulations put into place prevented a repeat of the crisis until the 1970's, when Reagan de-regulated the Savings and Loan Industry. The S&L industry lost no time in taking advantage of relaxations in laws to gamble on a large scale with the depositors money. The resulting banking crisis led to massive losses which wiped out the entire earning of the banking industry for the previous fifty years. This cycle was repeated when repeal of the Glass-Steagall act which prohibited banks from investing in stock markets eventually led to the global financial crisis of 2007-8. When we tabulate the costs and benefits, the costs of the banking crises far outweigh the gains from the banking system when considered over the course of the entire past hundred years. Thus, instead of rushing to blindly imitate western institutions, Muslims should examine the historical record of repeated disastrous failures of the Banking system.

The modern institution of unbacked paper currency is another case of violation of trust. Paper currency was initially fully backed by gold. Later on, it was realized that as long as people had confidence that there was gold to backup the currency, actual gold was not needed. This led to the concept of "fractional reserve" where only some fraction of the required backing in the form of gold was kept by the central banks. Later on, even this partial backing was withdrawn, and paper currency based purely on confidence, without any substantive real asset in the background. This confidence has been abused by nearly all governments by printing paper money without any backing. The evils and harms of this have been widely realized and proposals to go back to a 100% reserve have been floated by many, including an IMF team. Vadillo (2012) has strongly advocated the use of gold and silver, in the form of Dinars and Dirhams, as a solution to monetary problems being faced by Islamic countries.

4.2 Islamic Alternatives: Safekeeping of Real Assets

For those with money substantially in excess of their needs, the preferred mode is to spend it on others. This can be done in many different ways, but the Waqf is among the best ways. However, there are situations, discussed later in section 7, where accumulation of wealth is permissible within Islamic laws. This section deals primarily with people who have small amounts of money. Their primary need is for the safekeeping of this money, and this function was well known within Islamic societies. The Prophet S.A.W. himself kept assets in trust for many parties. Let us use the name "Dar-ul-Amanah" to denote an institution which has the primary purpose of keeping assets of depositors safe. The replication of an institution for this purpose will required several innovations to suit the needs of modern times.

One of these problems is created by the fact that fiat currency is not a real asset, and is not suitable to store for deposit. This is because it has no real value, and the continuous printing of money by governments continuously erodes its value. So storing it will generally involve returning to the depositor less, in value terms, than what he put it in. Realistically, the small percentage offered on deposits basically only offsets the inflation, so existing banks only offer an illusion of increase to the small depositor. This is a commonly used justification for the provision of interest by Banks. While we do not agree with the provision of interest, we do agree that there is a problem that needs solution here.

A simple idea, based on Vadillo (2012) is to convert the deposits from currency to gold or silver at the moment the deposit is made. Then this real asset can be held for safekeeping, and returned to the depositor when he asks for it. This idea can be extended further, to additional real assets like land, or ownership of firms. There is some risk involved here, in that these assets can fluctuate in money terms. However, this risk is matched by the risk of inflation, since the value of the currency itself is not stable. There are various methods which can be used to create bundles of commodities which would be least susceptible to risk of variation, fulfilling the idea of maintaining value which is a requirement of Amanah.

4.3 Circulation of Wealth

Another problem with Amanah, if we think of it as simply storing real assets, is that it will block the circulation of money, which is vital to the economy and also commanded by Islam. The depositors are attracted to banks by a small interest payment. In turn, the pool of deposits is made available to investors by banks. If the assets are locked away in Darul Amanah, this will cause a serious decline in the amount of wealth in circulation in the economy.

A solution to this is suggested by the story of a companion of the Prophet S.A.W. who would not accept money as Amanah. He would instead accept it as a loan. Then he was free to spend this money on charitable projects. Repayment of loans is a requirement of Islamic law. This is so serious that the Prophet S.A.W. would inquire about loans of deceased people, and would refuse to offer the Salatul Janazah if there were unfulfilled loans. Thus the person offering a loan to the Dar-ul-Amanah should have confidence that he will be able to get it back. Islamic traditions also support the idea that the government can guarantee the repayment of these loans for additional safety.

Given that the Darul Amanah accepts deposits as loans from the depositors, how should it use these deposits? Conventional banks maximize worldly profits by investing in capital. In accordance with the spirit of Islam, Darul Amanah should use these funds to create human and social capital. There are many types of investments in human and social capital which provide good worldly returns. For instance, a vast amount of funding of higher education comes from donations by the alumni, which show that investment in education pays off in the long run. Also, recent studies show that the wealth of nations is more in the form of human capital rather than physical capital. Thus the investments in humans can actually produce more profits than the western financial systems which focus on physical investments.

4.4 Three Way Split

We propose, tentatively, that deposits at Darul Amanah may be split into three components. One portion could be a pure safekeeping, where the deposits will be physically stored and kept safe. A second portion could be designated for investment purposes. These deposits could earn money, but would be at risk for loss as well. How the Darul Amanah would handle these funds is discussed in the section 7 below. The third portion could be designated as a loan for social purposes – Qarz-e-Hasna – from the depositor to the Darul Amanah. It is possible to design institutional structures to guarantee these loans, so that the depositor need not fear that the loan may not be returned. This portion would be spent on projects which would develop human and social capital, but may have uncertain payoffs. If the portfolio of these projects is managed well, there would be adequate returns for sustainability, but the goal would be to maximize the profits of the Akhirah with this portion of the deposits. There are many Ahadeeth that suggest that if we try to earn the Akhirah, then Allah T'aala will also provide with the blessings of this world. It seems likely that if we try to promote social welfare, we will create many positive externalities which will create strong positive real returns as well.

5. **Qarz-e-Hasna: The Key To Social Capital**

In genuine Islamic societies, there is a substantial amount of private spending on social welfare. There are two instruments which are crucial in achieving this goal. The first is donations, which are just given away without any (worldly) quid-pro-quo. Both Quran and Hadeeth is full of encouragement for making such donations. The second method is Qarz-e-Hasna, which is spending in the path of Allah without expectation of returns in this world. If the party to which the loan is given is eventually able to re-pay, then we may get the loan back, but otherwise not. Allah T'aala encourages the giving of such loans as follows:

> *2:245 Who is he that will loan to Allah, a beautiful loan,(QARZE-E-HASNA) which Allah will double and multiply many times? It is Allah that gives (you) want or plenty and to Him shall be your return*

Western theories of human behavior assume that selfishness is the base of human behavior, and charitable impulses are occasional deviations which cannot be sustained in the long run. Therefore, conventional theories of microfinance focus heavily on the idea that loans to the poor must be not only be repaid by the poor but the lender should actually make some profits – if this is not done, then the mechanism is not considered sustainable. Under the influence of these western ideas, some Muslims have also stated that the idea of expecting cooperation and generosity is idealistic and impractical. If this is so, then the Quran is also being unrealistic and impractical in exhorting Muslims to develop these qualities.

In fact, history testifies to the change brought about in the Arabs by the message of Islam, which led them from being backwards nomads to leaders of the world. Allah T'aala (Q3:103) mentions His favor on the Arabs that "you were enemies, He joined your hearts in love, so that by His Grace, ye became brethren" . Thus changing behaviors from competitive to cooperative is not only possible, but Islamic teachings provide us with the methodology to achieve such change. Furthermore, this methodology was demonstrated in practice by the Prophet S.A.W.

Investing in social and human capital creates very strong positive externalities. Perhaps this is what is referred to in the following Ayah:

> *2:268 Satan threatens you with the prospect of poverty and bids you to be niggardly, whereas God promises you His forgiveness and bounty; and God is infinite, all-knowing*

If we spend on other, especially via Qarz-e-Hasna, we take a risk that we may need the money in the future, but it will not be available to us. However in a society where the cultural norm is to spend on others in need, we can expect to be helped by others. This means that the need for precautionary savings is substantially reduced. The "fear of poverty" will not materialize if the spirit of cooperation is created. It will also create trust, which has been recognized to be crucial factor in promoting economic growth recently. In fact, it is creation of this feeling of cooperation and community which is directly the goal of Islamic teachings. Spending on others is a means of achieving this goal:

> *3:92 [O believers] never shall you attain to true piety unless you spend on others out of what you cherish yourselves;*

This reverses secular teachings according to which provision of social services is a goal, and charity is a means of achieving this goal.

6. **Accumulation of Wealth**

There are many legitimate ways to spend in the path of Allah. Taking care of oneself and ones family and close relations is part of Islamic obligations, and someone who seeks to increase his wealth in order to fulfill these duties is acting according to the rules of Shari'ah. It is only the "irrational pursuit of wealth for its own sake" – which is the spirit of capitalism – that is prohibited in Islamic law. One extremely important restriction here is that earnings must be Halal – permissible in Islamic law. This means that some service must be provided to acquire earning. In Islam, unlike capitalism, mere ownership of wealth is not considered as a service to society. Thus, the possession of wealth does not entitle one to earn money; this is the justification for the prohibition on interest. Those who are wealthy, and want to earn money on this wealth, must participate in the risks of doing business for the acquisition of wealth. Modern investment banks actually provide this service – they allow investors to participate in risks and profits of doing business. Versions of this type of banking would be permissible in Islamic law, and could be among the genuine Islamic financial institution necessary to replace banks. For example, our Prophet S.A.W. participated in, and led, caravans financed on this basis. Also, since accumulation of wealth must be directed towards some Shari'a permissible purpose, special institutions for savings would provide more efficient

vehicles for customers saving for some common purpose. Bare outlines of these ideas are presented below.

6.1 General Principles for Accumulation of Wealth

Islamic teachings on wealth are subtle and sophisticated, showing that wealth can be a curse and also a blessing. Because of this dual nature of wealth, many writers have gone astray by over-emphasizing one side or the other. To begin with, this our worldly possessions are a test:

> *8:28 and know that your worldly goods and your children are but a trial and a temptation, and that with God there is a tremendous reward.*

If we earn money in a Halal way,save and accumulate it for Halal purposes, and spend it in Halal ways, without developing the disease of the love of money in our hearts, then this wealth is a blessing. For those who fail in this trial, like Qaroon, the wealth is a curse. This dual nature of wealth is clearly pointed out in a Hadeeth cited in section 9, chapter 9 of Hikayut-us-Sahabah, Fazail-e-Amal:

> Hakim! Wealth has a deceptive appearance. It appears to be very sweet (but it is really not so). It is a blessing when earned with contentment of heart, but there is no satisfaction in it when it is got with greed.

To earn the money in a halal way is an essential requirement of Islam. A Muslim who has absorbed these teachings would not participate in the numerous get-rich-quick schemes which are widely advertised. This is because legitimate earnings must be compensation for some service provided, and earning something for nothing is permissible and Halal only under very restricted circumstances.

Similarly, being self-sufficient, and providing support to ones dependents is an Islamic obligation. Earning and accumulating wealth for this purpose is considered as worship. Those who happen to become needy are encourage to hide their needs, and not beg from others. At the same time, those with excess wealth are encouraged to seek out the needy, recognizing them by signs (since they will not be asking) and provide for them in an honorable way. If these Islamic norms prevail in a society, the need for accumulation of wealth by individuals will be substantially reduced, for three reasons:

1. The norms of helping each other in times of need will reduce the need for precautionary savings. It has been noted by Anthropologists that no one goes hungry in subsistence economies because of strong norms of sharing.
2. Islam strongly encourages simple lifestyles. Sustaining these will require substantially less wealth than the luxurious lifestyles that are promoted as ideals in capitalist economies.
3. Islamic teaching prohibit Israf and Tabzeer, or wasteful consumption. Less money will be needed, and more will be available to spend on others.

The net effect of this would be that there would much more spending on human and social capital, and much less on capital – machines and factories – in an Islamic society. Interestingly, a lot of recent research shows that these invisibles (human capital and trust) are much stronger determinants of economic growth than conventional physical capital. In capitalist societies, a large proportion of wealth is spent on making profits for a very small proportion of the population, while a small proportion is spend on providing social services. Islamic societies would reverse these priorities.

6.2 General Purpose Institutions

These would be institutions which allow people with excess wealth to participate in trading or investment . These differ from conventional banks in some crucial respects. Profits earned by participants are compensation for risks of business, which is legitimate in Islam. A service is provided to society by funding a risky business venture. In contrast, conventional business allows for increases in wealth without any service being provided. So-called Islamic banks attempt to replicate this western model, by allowing people with wealth to earn money without taking any risks or providing any service to society. This creates the same ill effect of concentration of wealth which are produced by conventional banks. Nienhaus (2012) has discussed the deviation between the claims and the reality of Islamic banks.

Some relevant considerations are listed below:

1. We do not expect small depositors to put money into investment bank. These clients will be catered to by the Dar-ul-Amana. Only relatively wealthy clients would seek to increase their wealth. However, if clients designate some portion of their small deposits for investments, the Dar-ul-Amana could aggregate such deposits and select relatively low risk investments on their behalf.

2. Those with wealth in excess of their needs would be eligible to use investment banks, but should be offered Shariah consultative services. The preferred use for excess wealth is to spend it on others. Shaitan scares people into excess savings and away from generosity by raising the fear of poverty in their hearts. Shariah consultants should be able to offer advice on how to differentiate between realistic and legitimate requirements of financial security, and excessive and exaggerated demands for the accumulation of wealth.
3. The purpose for seeking an increase in excess wealth should be clarified, since it is not permissible to accumulate wealth without a specific, legitimate purposed. Also, it is an Islamic teaching to actually encourage those with excess wealth to spend it on the needy – note the condemnation of those who did not urge the feeding of the poor. Thus, the Shariah advisor should encourage those with excess wealth to create Waqf, or otherwise serve the poor with this excess wealth.

6.3 Special Purpose Savings Institutions

As discussed earlier, unlike capitalism, Islam does not all unconstrained pursuit of wealth. There are some special purposes for which savings is permissible or even recommended. Many benefits can be derived by the creation of special purpose savings organizations which target specific needs of Muslims. A key to this discussion is the idea that these organizations will provide real services, not just financial ones. This is because earnings must be tied to provision of services to be Halal. In this context, specialized organizations are much more capable of efficient provision of services targeted to clientele saving for a specific purpose.

For example, it is permissible and desirable to save money for performing Hajj. An extremely successful financial organization which caters to people saving for this purpose is Tabung Haji in Malaysia. There are many benefits available from specialization. If a large organization has collected funds for the purpose of Hajj, it can target its investments in transportation services, residences in Mecca and Medina, and other areas to facilitate its customers. It can gather and distribute specialized knowledge of relevance to the target audience. The success of Tabung Haji suggests that similar savings institutions, which obviously have no parallels in the west, can also be successful in other Islamic countries.

A second area for which savings is permissible is to purchase a house. The Quran (16:80) mentions houses and tents as gifts of Allah to humankind. According Hadeeth in Musnad Ahmad (1368), a house is one of the three determinants of happiness of the son of Adam. Models for specialized savings institutions designed to help customers to build or purchase homes exist in the form of Building Societies. These would have to adapted to serve Islamic needs. In accordance with the vision of providing a wide range of services, Islamic Building societies could own apartment complexes which would provide temporary housing to investors in process of acquiring their own houses. It could provide a range of services like evaluation of properties and land, as well as provision of expert builders, contractors, architects etc.

A third area for which people save is health emergencies. A cooperative health model where people pool resources to purchase common health services would be an Islamic alternative to the insurance concept, which is adversarial in nature. Such institutions – cooperatives for health care – already exist in the west, and could be adapted to serve Islamic purposes. Similarly, auto clubs provide a wide range of services for owners of automobiles. Such institutions could also provide the service of allowing customers to save up to buy a car, thereby creating a special purpose savings fund for car purchases.

The distinguishing feature of Islamic institutions is that earnings is based on the provision of real services. This involves having a broader vision than the narrow restriction to purely financial services, as currently popular in the west. The concept of making profits by any means, without considering whether or not a service of some value has been provided, leads to substantial social harm. There is a large amount of materials documenting the greed on Wall Street and the harm it has led to. For instance, Greg Smith (March 2011) recently resigned from Goldman-Sachs after accusing the firm of making profits by misleading and deceiving customers regarding investments.

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7. Concluding Remarks:

In this paper we have outlined a structure of financial institutions which would conform to the Islamic spirit of generosity, cooperation, and provision of service. As we have seen, these institutions differ substantially from capitalist counterparts, which are based on the spirit of hoarding and accumulation of wealth.

There are four or more functions provided by modern banks. Genuine Islamic alternatives provide different and separate institutions for each function. For the small depositor who want to keep his money safe, we need to construct Dar-ul-Amanah. A proper emulation of the concept of keeping wealth safe requires some innovation in the modern world where most wealth is in the form of unbacked paper currency. For those with wealth in excess of their needs, spending it on others is the preferred use. However, this excess wealth can also be saved if the accumulation is to be used for spending in the way of Allah. Several institutions adapted to special purposes which are permissible in the Shariah have been discussed. A differentiated structure of institutions is needed because each institution should provide real services to its clients, in order to justify earning profits. The purely financial services can be handled by a single institution, as in the western model. However, numerous crises have shown the spectacular failures of this model, which has inflicted heavy costs on society as a whole.

As important as the form is the spirit behind the form. The Islamic institutions are designed to generate cooperation, community and trust. Islamic teachings do not display duality – that is, the form is not separate from the spirit. It is not that we must first pay attention to spiritual development, and then later create Islamic institutions. Rather, the two efforts go hand in hand. The existence of Awqaf will create opportunities to spend on others, which will create generosity. The spirit of generosity will facilitate the creation of Awqaf. Similarly in other dimensions, the form and spirit go together.

The teachings of Islam created a revolution in the world some fourteen centuries ago. Today the world is again enveloped in the darkness of Jahilliya, and these teachings have the same potential to enlighten the world. This is the challenge facing us as Muslims today.

Case for Standardization of Fatāwá, Products Approval and Sharīʻah Certification Processes in Islāmic Finance

By Prof. Muhammad Ayub

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His encyclopedic work, "Understanding Islamic Finance" published by John Wiley & Sons in October, 2007 is serving as a text book on the subject and as a guide for researchers, financial engineers and practitioners.

Islām finance, often attributed to Uzair (1955) that focused on a mutualfund style two-tiered partnership model, has developed on totally different models, the latest being the 'Financial Engineering' model that "provides Muslims with permissible analogues of conventional financial services and products that are generally deemed impermissible in Islāmic jurisprudence" (El Gamal, 2007). Besides unwarranted use of 'organized tawarruq', Islāmic financial institutions (IFIs) are increasingly taking excessive risks (e.g. by investing in shorting-based hedge funds) to maximize their profits without actually investing even, using the tool of muqāsah (netting-off). Some of them also offer 'protected capital mutual-funds' with payoff structures, generated by derivative securities, without themselves trading in those securities, by allowing an option-like payment to non-Islāmic partners or advisers as management or advisory fees.

Although Islāmic banking and finance has witnessed an amazing growth during last four decades; yet it is faced with a number of weaknesses and challenges, the most striking of which is declining integrity mainly on account of the loopholes in the Sharīʻah governance framework and the role of jurists and Sharīʻah committees. Many of its advocates who worked for evolution of Islāmic economics and finance in 20th century have expressed their disappointment and frustration. IFIs are often accused of merely replicating conventional financing facilities, by adding a number of intermediaries for the purpose of non-interdependence as hilah, with the Sharīʻah compliance involving form rather than substance. Generally, the sukuk market is considered as the "Islāmic bond market" (David Bassens, et al. 2011). Even 'artificial sukuk' are created just to facilitate investment of liquidity (the issue was discussed in AAOIFI's annual meeting, 2011). All these efforts aim at finding alternatives to debt structuring to compete with conventional institutions for profiteering. The more pinching reality is that the capital mobilized by IFIs for Sharīʻah based businesses is diverted to the interest based conventional system by way of tawarruq both at national and global levels with approval, of course, of the respective Sharīʻah boards or advisors.

El-Gamal observs in this perspective:

> "In addition to loans, many other contemporary financial transactions (e.g. forward and futures trading, options trading, etc.) have been banned by the majority of Islāmic jurists. Some of those jurists then proceeded to certify "Islāmic" alternatives that are synthesized from simple sales, leases, and other premodern contracts..... Derivatives were no exception..... A swap may now be easily synthesized with two forwards.... using the methods of financial engineering, we bundle or unbundle various contracts, possibly using multiple steps, to synthesize the ostensibly forbidden practice" (2007 May).

The most of the managerial level practitioners in Islāmic finance view it merely a business opportunity trying their hard to maximize the returns for the shareholders/employers to get, in turn, higher salaries and perks without due regard to the aspect of Sharīʻah compliance. Conventional products are used as building blocks for the 'Islāmic' products for approval by the Sharīʻah scholars who certify compliance on legal grounds without giving due weightage to the end result of the approved products. They have not been able to practically ensure distinction between "assetbacked" Islāmic financing on the one hand, and conventional finance based on "renting money". While "we need a finance sector that facilitates the channelling of funds to the productive sectors instead of attracting funds and other financial and human resources from the productive sectors to speculation" as contended by Monzer Kahf (2011).

Tawarruq was prohibited by the Islāmic Fiqh Academy in 2009. AAOIFI still allows it, but a number of studies made afterwards underlined that fulfilment of the conditions suggested by AAOIFI for valid tawarruq was simply impossible . There is no moral argument supporting the proposition that tawarruq is better than a conventional overdraft; rather such practices result in damage to the reputation of the Islāmic finance industry and wider skepticism.

In Pakistan, the State Bank of Pakistan (SBP) had been doing excellent to promote Islāmic banking with clear emphasis on Sharīʻah compliance. Even before prohibition of tawarruq by Islāmic Fiqh Academy in 2009, its use was minimal in Pakistan. SBP advised IBIs in 2008 to take prior approval for use of tawarruq [Annexure 1, IBD Circular 2/2008]. The situation has been changing for about a year and now the SBP is not only implicitly allowing tawarruq in the form of 'sukuk murabaha' by the IBIs but has recently facilitated the IBIs to do baiʻ mu'ajjal/out-right sale of (near to maturity) ijārah sukuk which serves as a means to generate return for IBIs from liquidity. It could effectually be a sale of debt with return, (as contract of ijārah comes to an end at maturity of sukuk while Islāmic bank continues earning for the period of baiʻ mu'ajjal that could be any period - if jurists allow for one year, why not for 10/20 years). While sale of sukuk before maturity is not tenable as all IBIs tend to hold them till maturity, money moped up by the SBP through purchase of near to maturity sukuk is injected in the market simultaneous through purchase of conventional securities from interest based banks. If that is the case, then what is the objective of 'Islāmic' banking? It may damage the credibility of Islāmic banking in Pakistan which so far was carrying better position by dint of better Sharīʻah governance standards implemented by the Central Bank.

At the level of multilateral institutions, IIFM that had issued about five years back ISDA/IIFM Tahawwut Master Agreement for transacting 'Sharīʻah compliant derivatives' has quite recently published an innovate 'Master Collateralized Murābahah Agreement' (MCMA) for 'better using Islāmic securities portfolio particularly sukuk', to help increase demand for sukuk, unlock hold-to-maturity sukuk portfolios and to provide an alternative to 'non-Shari'ah compliant repo'. While the Tahawwut (hedging) agreement has not been accepted by the mainstream Islāmic finance industry, the MCMA based on 'Rahn' is practically a commodity Murābahah transaction and a stratagem to get returns on debt instruments.

Islāmic finance with its value based features can become the basis for financial discipline not only on regulatory interventions, as being done at global level, but also on the solid underlying foundations. A visible move by the IFIs towards the values based procedures and practices may be useful in attracting global cooperation needed for the purpose of developing finance for the service of human beings as a whole. The policy makers at States and institutional levels in all areas relating to money, banking and finance have to do something solid for benefit of the poorer and less powerful who have, at least, to be provided their 'generic rights' and 'basic goods'.

Issues in Fatāwá and Products Certification

As no direct guidance is available on the innovative products of conventional finance in the original sources of the Sharī'ah, the methods of ijtihād and qiyās are applied by the Sharī'ah scholars/jurists individually or as members of the Sharī'ah boards to approve and certify the products. In case of boards/ committees, this is generally done on 'majority' principle because any of the members might have different view. Hence, the banks are able to assure the customers that their practices are 'truly Islāmic'. However, the problem is that jurists/Sharī'ah committees' members do not have sufficient time, and in many cases competence, to review thoroughly the process and their application by the banks. Even many of the resident Sharī'ah advisors of the banks might not be in position to give full-time due to other responsibilities outside the bank. Conduct of Sharī'ah review may require face-to-face meetings with the relevant officials in Product Development, Sharī'ah, Treasury and Credit Departments within a bank; and with customers, brokers, accountants and auditors, outside the bank. Ensuring proper screening and monitoring of stocks of the investee companies is another important area.

This requires ample time and, of course, expertise to examine the complicated structured products submitted by the practitioners for approval.

Other related issues include:

i. the 'market demand' - IFIs tend to employ out of some renowned scholars to sit on their Sharī'ah committees;
ii. fee depending on a deal going ahead and "the right price" - thus, the critics came up with the term "rent-a-sheikh" and
iii. conflicts of interest like advisory firms owned by any of the members, student-teacher or senior-junior relation, membership in other IFIs, and difference of sect (madhāhib). In many cases, a contagion effect is witnessed whereby the banks' management require their jurists to approve the products 'similar' to the approved by the jurists of other boards or scholars accredited at global level. All this has led to what El-Gamal calls 'Sharī'ah arbitrage', the reengineering of conventional products and getting their approval by esteemed scholars, or as Hassan and Dicle (2007) call it 'Fatwá shopping' when IFS firms simply seek quick recognition for their products.

Impending Subversion of Islāmic Law of Contracts

The above trend leads to danger of approving and eventually codifying hiyal based products of the IFIs, which could create serious problems for future generations of jurists in maintaining the substance of Islāmic Law as we find in the classical jurisprudence. El-Gamal apprehends, "Sharī'ah arbitrage-based Islāmic finance threatens to cause religious harm, by subverting Islāmic Law, as well as worldly harm, by exposing the industry to abuse and scandal (2007). David Bassens et al. (2011) comment in this regard in the following words: "Sharī'ah scholars who hold highly specialized Sharī'ah knowledge and skills, lend their services to IFS firms and so doing, boast high levels of authority, since they make and break the rules of Sharī'ah-compliance".

Possible Implications for Islāmic Finance

Trust of the public and integrity should be the main area to be focused by Islāmic institutions, more than the conventional financial institutions. Even the West is considering seriously that restoration of trust in financial system can be achieved only by comprehensive and far-reaching reforms in the system. In one of such moves, directors of all banks in the Netherlands have been asked to swear an oath. Similar steps have been taken in some UK and USA based banks. For the Sharī'ah advisors of the IFIs, however, the nature of the responsibility is much more than what is required in the so-called 'Hippocratic Oath' in medicine or political fields or recently designed 'banker's oath'.

Imperatives of Fatāwá in present day Finance

The unpleasant situation discussed above calls for serious measures by the regulators and the Sharī'ah scholars themselves. The bottom line of the reforms should be that if interest is prohibited, as has been accepted by all jurists associated with IFIs, it must be evidenced in Sharī'ah certifications and implementation thereof, that money is a bearer of risk in business activities conducted with money. IFIs have to add value through financing the real sector and expound that divine law and the contracts based on it can help the human beings better in establishing a just and coherent system by giving 'generic rights' and providing 'basic goods' to all members of human society12. It implies the need for enhancing Sharī'ah review capabilities and developing unified Sharī'ah certification, product approval and fatāwá pronouncement processes. Such standardization also needs to consider issues like i) how often the contracts and processes are reviewed keeping in view the practices of the IFIs; and ii) how the inconsistencies between fatāwá and the actual practices are addressed?

Regulating the Sharīʻah Scholarship and Supervision

One such effort for regulating the Sharīʻah scholarship and supervision was said to be initiated by AAIOIF which announced in 2011 that they would be setting new standards on the number of board memberships and regulate scholars' shareholdings in financial institutions and advisory services provided by companies and their conduct on banks' Sharīʻah boards with the objective of removing conflicts of interest. There is a big question, however, whether AAOIFI alone can implement a serious code of conduct for renowned Sharīʻah scholars, many of whom are at its own Sharīʻah committee? For joint efforts, therefore, there has to be close coordination between Fiqh Council of the OIC, IRTI, AAOIFI, IFSB and CIBAFI and the research institutes like ISRA, Malaysia. There must be transparency and wider disclosure on underlying bases of the structured products. We could not find any reference in traditional books of jurisprudence for majority based decisions. Rather, many references were found to prefer any view on the basis of strength of the argument for conformity with Qur'ān and Sunnah. Decisions on the basis of mere zann (conjecture) have no place in Islāmic jurisprudence13. Detailed explanatory note must be given on Sharīʻah basis in case a structured product is approved by the Sharīʻah committee on majority basis, in addition to the dissenting note(s) by any members. Such note has not only to explain the Sharīʻah compliance level of the approved product, but also prove that the majority decision is rational, aligned with maqāsid al-Sharīʻah directly or indirectly, and closest to the principles of Qur'ān and Sunnah.

It is vital to observe that such moves are not against the jurists or the Sharīʻah scholars. It is rather for their benefit; enhancing integrity of Islāmic finance would mean enhancing their own credibility that would be helpful in dispelling the terms like "rent-a-sheikh" or "Fatwá shopping".

Training and Education of the Sharīʻah Advisors

Many Sharīʻah related problems arise because of lack of proper expertise in the jurists associated with banks. Apprehension is shown in many studies that the Shari'ah board members might not understand all aspects of the products relating to finance, accounting, auditing and implications for monetary policy (Wilson, 2011). According to a recent study by the SBP officials (KAP Study, Sic.), "It is imperative that Sharīʻah scholars are trained in Islāmic banking so that they would be able to offer concrete perspectives on issues related to the field"…"Majority of those who are doing Islāmic banking feel that it is the Sharīʻah board that makes a bank Islāmic". Besides, the role of Sharīʻah scholars needs to be further enhanced and made more public in promoting Islāmic banking and finance. [Executive Summary and P. 64]

Maximum Clarity & Guidance Needed

Industry practitioners need detailed guidance and advice on the procedures and documentation of the structured products like sukuk or other liquidity management tools for bringing reforms to the approach and the system in vogue. Lack of such advice could be the main reason for failure in achieving maqāsid al-Sharīʻah. In case any sort of 'limited' permission is given in main contractual arrangements or in their processes, as in case of tawarruq, or use of a series of waʻad in derivatives structures; the practitioners exploit such permissions and do not take into consideration the limitations imposed, if any, by the Sharīʻah scholars. "If you tell us that the contract is permissible, that is all that we need to hear", the bankers' practice seems to suggest (El-Gamal, 2007). Hence, the Sharīʻah scholars, in their position as legatee of the holy Prophet (pbuh), need to be vigilant taking it an oath with Almighty. In case of any issue they have to invoke 'Qur'ān and Sunnah' as per the verse 4:59 and may not depend on what is reported or told to them as in the case of publishers or external auditors.

In recent years, sorts of oaths have been introduced in the conventional finance to safeguard against crimes, as for example: "I hereby swear … I will treat my clients at all times as I would wish to be treated. ... I will not, however, pursue these returns to the extent that my actions will knowingly harm others. However, in case of complicated financial products like swaps, it is rather impossible to expect that the banker/hedger will treat the counterparty in a way as 'would wish to be treated' as the basic deals tantamount to gambling giving profit to only one party. Hence, the reformists need to go further in redefining the bases for banking and nonbanking financial intermediation and redesigning the products rendering finance as a facilitator for the real sector, instead of making it separate field having no link with the real sector.

Enhancing Sharīʻah Review Credibility

For the Sharīʻah scholars commissioned by the IFIs, knowledge of contemporary finance, engineered products and their impact on various categories of stakeholders and the economy is a pre-condition, in addition to firm knowledge of Islāmic jurisprudence. Sharīʻah scholars must be cautious about the delicate responsibility of approving or rejecting the new products. They may accept responsibility if and only if they have knowledge of all related aspects of the products, their processes and the role in achieving maqāsid al-Sharīʻah. Lack of knowledge or ignorance of any person in deciding is not an excuse accepted by the Sharīʻah. The conditions of iftā'

have been comprehensively discussed by a large number of jurists. Recently, a group of jurists and muftis working on the platform of Al Suffah Trust for Education and Research, Lahore prepared guidelines for Sharī'ah conforming business and also discussed the conditions for conducting ijtihād for achieving ijmā' (Sep. 2014; Vol. 1). What can be derived from their research and relevant writings of the jurists is that a mufti for the purpose of ijtihād:

i. must be well-conversant with the principles of Qur'ān and Sunnah, the methods of deriving arguments from the sources of the Sharī'ah and the contemporary knowledge on the respective subjects;
ii. must also be aware of the possible ruses that people may use for exploitation of the fatwá for unwarranted gains;
iii. should consider thoroughly with utmost care, taking it a religious responsibility, not be in hurry for any reason whatsoever;
iv. must consider the ultimate purpose of serving Islām as a dīn to please Almighty and not for worldly gains;
v. should avoid doubts in terms of his pronouncements;
vi. should be impartial avoiding all conflicts of interests
vii. must take the fatwá back in case some contrary problem emerges afterwards or it transpires that the pronouncement is being misused for worldly gains. (Baihaqi, Sunan al-Kubra, 10/204)

According to Kuwait's banking law of 1968, if there is conflict of opinion between Sharī'ah board members, this should be referred to the Fatwá Board of the Ministry of Awqāf and Islāmic Affairs, which is empowered to provide the definitive ruling. No such provision has been made in the most of the jurisdictions also including Pakistan where decisions by the Sharī'ah board of the State Bank of Pakistan, whether unanimous or majority based, are considered final. Same is the case with Sharī'ah board of the IBIs with the difference that IBIs Sharī'ah boards may like to refer any case to the SBP for decision by its Sharī'ah board. A universal code needs to be agreed upon under the auspices of IRTI/IDB and AAOIFI to serve as the procedural foundation of collective judgments on products approval and Sharī'ah certification: The following could be the bases of fatwá/decision making:

a. All judgments, fatawa and certification must have Sharī'ah based moral and rational foundations in addition to fulfilling the legal requirements. The 'abath (useless / vain) transactions that create no effect on goods and services available to human beings be excluded from the IFIs' kitty of products (Kahf, Objectives -- prohibition of ribā, 2006).
b. The human and material resources have to be diverted from speculative/exploitative activities to the real economy to enhance and help wealth creation activities in real terms.
c. Islāmic finance personnel have not to become part of the conventional financial hegemony and must stick to moral and rational principles for prevention of harm to the human beings. Only then, we can persuade the global community to work for universal values for application of the 'golden rule' and equitable fair dealing. Islamic finance practitioners should not become a part of the self -centered business model, which as argued by Zuboff, "made it easier to operate in one's own narrow interests, without the usual feelings of empathy that alerts us to the pain of others and define us as humans." (cf, Abdullah and Mirakhor, 2013)
d. Short selling, except with the conditions applicable to salam sale, must be kept in the prohibited activities of the IFIs.
e. All contracts relating to commodities and stock must be intended for delivery and transfer of risk and reward.
f. Some sort of General Assemblies (GA), Think Tanks or any similar forums, need to be constituted at national and global levels comprising representatives of all stakeholders, particularly the depositors whose money IFIs use on mudārabah principle, and the jurists/scholars who understand the basis and features of finance products in vogue. All products subject to difference of opinion in Sharī'ah committees or among public might be considered by the GA and approved or rejected.

To conclude, we would like to suggest that the Sharī'ah scholars may themselves ask the central banks/regulators at national levels, and AAOIFI or IRTI/IDB at global level, to take a step forward for approval/disapproval of the criticised products currently in practice in respective jurisdictions or anywhere in the world; to disseminate all such products with all details of processes for eliciting views from GAs as suggested above, or experts/academia and jurists not associated with IFIs and then finally pronounce about their valid use or discontinuation. Joint efforts of countries like Indonesia, Malaysia, Bangladesh, Pakistan, UAE, Qatar, Kuwait, Bahrain and Saudi Arabia could go a long way in standardizing the products and thus enhancing credibility of Islāmic banking and finance

Interview with Prof. Massimo Khairallah

Italian-Yemeni Centre for the Conservation of Cultural Heritage

By Alberto Di Gennaro

Massimo Khairallah

Adjunct Professor of Arabic Language & Language Coadjutor, University of Venice Ca' Foscari. Specialized in different fields concerning Arabic and Islamic worlds, bilingual Italian-Arabic and master prof. English. Consultant for Veneto Institute for Cultural Heritage IVBC in restoring project of the "Great Mosque" in Sana'a and "Ashrafiyya" in Ta'iz–Yemen (www.tarmim.org).

Q: Could you briefly describe your activities in Yemen?

A: My name is Massimo Khairallah and I work as Arabic Language Instructor at Cà Foscari University in Venice and cultural advisor of the Istituto Veneto per i Beni Culturali which has been cooperating for about 10 years in the Middle East with restoration projects in Yemen and in the Palestinian Territories. Among these important initiatives I can mention the restoration of the internal decoration of the Dome of the Rock in Jerusalem and the restoration of the wooden ceiling of the Great Mosque in Sana'a.

I was in Yemen in January 2015 for the inauguration of the Mosque and madrasa Al -Ashrafiyya in Ta'izz. The restoration of the mosque lasted 8 years and involved 30 Yemeni restorers which were trained by Italian professors, and a permanent Italian team.

During the inauguration day, that took place on the 22sd of January, some local authorities attended the celebration and we also had the presence of Taizz Region Governor, Shawqi Ahmad Hayel, who signed with the Institute a Memorandum of Understanding for the safeguard and promotion of Cultural Heritage.

The Institute's cultural cooperation policy, designed by its director Architect Renzo Ravagnan, aims at the training of local manpower who can put into practice and develop their skills directly in the restoration yards, where they can work on the same monuments that need to be safeguarded. This methods give two important benefits: on one hand the direct conservation of the country's cultural heritage and on the other the institution of a professional manpower that is at disposal for future interventions. Moreover it sets up an important occupational network in the field of restoration. I think this to be the best strategy to collaborate with those countries.

Some days before the inauguration a series of bombing hit the presidential palace in Sana'a and this led to an armed conflict between the Houthi rebels who in September occupied the capital through a militia-organized coup, and the presidential guard which engaged in the conflict to protect a house-arrested president.

From the right Massimo Khairallah

Q: Can you please tell us about the al-Ashrafiyya restoration project?

A: I started my collaboration right after the setting up of the working site, the second the Institute has in Yemen. The project was carried out thanks to the partnership with the Social Fund for Development, a very well-known local institution. The methodological approach appeared to be very complicated for the antiquity of the monument and the very poor state of conservation. Anyhow, the strict cooperation between national, Italian and international experts led to such an incredible result that the client is considering to present this project to compete for the eminent Aga Khan Price.

Q: Did this project led to a collaboration with the local workforce? Which were the difficulties?

A: Of course. One of the most important aspect of our projects is the training of the local manpower in the field of restoration which entail new skills for future interventions and gave us the confidence of all our Yemeni collaborators that allowed us to solve the problems with great harmony.

Perhaps the difficulties we faced were linked to the adaptation at the local attitude toward the working schedule, which may seem really different from the occidental mentality.

Q: So you inaugurated in a delicate moment, and later you had to leave the country because of the war outbreak. Can you please explain what generated the conflict?

A: Unfortunately the country was at the mercy of a strong political turmoil since before the summer 2014 and such a situation was slowly creating an alarming institutional and political vacuum. So in March 2015 the unexpected “Decisive Storm” campaign led by Saudi Arabia and its allies broke out against the Houthi and the last supporters of the former president Ali Saleh. This military operation threw the country into a serious humanitarian crisis and now Yemen is really close to collapsing.

The issue arose, like in other Arab countries, after the so-called “Arab spring”, that seemed to bring new hopes but in reality the conservative forces gradually split the country in many different ways. Moreover Yemen is a regional point of contention between Iran and Saudi Arabia that treat it like a dangerous pawn in the Great middle Eastern Game, as proved by the Saudi offensive.

From the right Renzo Ravagnan and
Massimo Khairallah

Q: Were you involved in the conflict? Where did you assist to the events?

A: The clashes took place in the south of the capital, but we were in the old City and we were advised to go back to the hotel, where we surreally saw artillery fire from both parts from the hotel rooftop. However people in the streets continued their activities as usual.

Q: Were foreigners in danger?

A: Well, I can say no. The clashes were very restricted and involved well-known components. We didn't feel any threat and the day after we flew to Tai'zz.

Q: What happened to the Italian-Yemeni Centre for the Conservation of Cultural Heritage - Tarmim?

A: We officially inaugurated our headquarter in September 2014 at the presence of the Minister of Culture and of the UNDP Resident Representative, but the present circumstances made us interrupt the projects we drafted with the local authorities. Now we have to think about the future: how to recover the damaged artifacts and how to safeguard the endangered ones. We'll try to be on the front line, this is the promise of the Director Renzo Ravagnan, for the restoration of the priceless Yemeni cultural heritage

Q: How was the situation when you left Yemen to come back to Italy?

A: Pretty quiet. We came back to Sana'a from Ta'izz with no troubles and in the capital everything looked normal. We could hang out as usual and we did not witness any violent occurrence.

Q: How is the present situation and what can you forecast for the future of this country?

A: The current situation is extremely confused, the end of the conflict is not shortly predictable, either the clashes on the ground among the different groups and the Saudi military campaign. The country, as I said, is about to collapse: there is a shortage of basic necessities such as electricity, medicines, foods; the UN estimated that at least 20 million of people are in need of humanitarian aid.

We really hope that this will end as soon as possible so that when the readers will read this article everything I described will be in the past.

Q: Which are the next goals of the Istituto Veneto?

We want to keep helping the country with our training projects and with our appeals for the heritage conservation of this wonderful country which follow the one Pier Paolo Pasolini launched in 1971 for the Old City of Sana'a.

Moreover Italian people is highly considered by the Yemenis since the creation of their state for Italy was the first to give it an international recognition.

Thanks to our working methods and to our efforts for a fruitful cooperation we've always enjoyed widespread appreciation, therefore we are bonded to Yemen by a moral obligation and we want to be part of the country's reconstruction.

Islamic finance under the Mole: the new hub for the south of Europe

By Prof. Paolo Pietro Biancone

It was a warm October for Islamic finance in Turin. It was in fact scheduled for the 19th and the 20th of October, the second edition of the Turin Islamic Economic Forum (TIEF), that was organized by the city of Turin, in partnership with the University of Turin, the Chamber of Commerce of Turin and Assaif, which recalled the presence of operators of the sector to study the new business opportunities and partnerships with our territory, in particular for the areas of fashion, food and finance. In the following two days - October 21st and 22nd - it was on the agenda the Thematic Workshop on Islamic Financial Innovations 2015, organized by the European Research Centre for Islamic Finance (ERCIF) in cooperation with the Islamic Research and Training Institute (IRTI) of Saudi Arabia, at the School of Management and Economics at the University of Turin. The meeting attracted researchers and teachers of Islamic finance from all the world. "It deals with; commented Professor Paolo Pietro Biancone, the Director of the European Research centre for Islamic Finance (ercif.org) of the University of Turin; two important events, which are in addition to attract scholars and prominent figures from all the world, will offer significant opportunities of development and research on the issues of Islamic finance in the territory. "

The scientific interest for Islamic finance in the territory is directed really by the European Research Centre for Islamic Finance at the University of Turin, that was created few years ago with the objective of being a hub for satisfying the desire of knowledge of all those who are searching for information, research sources and updates on the subject, with specific focus on the accounting principles of the balance sheet of Islamic banks. "Our aim - Professor Biancone explains – is to expand more and more our specialization in order to represent a center of spreading the knowledge to national and international level, encouraging a possible integration between our banking system and the alternative one that undoubtedly would bring important benefits to the Italian economy ".

The Islamic financial intermediary system that was risen a little more than thirty years ago; represents; developments of 15-20% per year and its activity is based on the moral and ethical principles of Sharia law, in compliance with the dictates of the Koran that prohibits the application of interest rates and the realization of

Paolo Pietro Biancone

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From the left Alberto Di Gennaro, Paolo Biancone, Turkhan Ali Manap, Roberta Aluffi

profits based on an excessive uncertainty. The Muslim population in the world today is around 1.6 billion people while the presence of Muslims in Italy (according to the estimates) has reached more than 1.2 million people. To the Muslim religion corresponds an alternative model of finance, the Islamic finance, which today is present in approximately 75 countries of the world with a total of activity for more than 1000 billion dollars; it is characterized by the combination of finance, ethical and moral values, these lasts determinants in the definition of the rules and standards underlying the operation of the Islamic banking system, which result in different precepts, the most important of which is the prohibition payments of interest.

"Towards this alternative model of finance - the professor underlines- in Italy are still prevalent lack of knowledge and problems related to coordination with the national system and with the capital requirements set by the Basel Committee, but nothing is impossible if you consider that other European countries have encountered (and evidently overcame) similar problems, through the installation of real investment Islamic banks or at least of an Islamic window in branches of traditional banks. For this reason the group of researchers that is part of the Research Centre are working on studying the possibility of financing the metro line with Sukuk: are bonds that are Sharia compliant in which in the Islamic law it is prohibited to take loan with interest. Sukuk can be considered similar to Corporate bonds but Sharia complaint.

But contrary to bonds, Sukuk shall correspond to a determined project - usually a real estate or infrastructural project. So, while a conventional bond is a promise to repay a debt, the sukuk consist of ownership of a share of a debt (sukuk murabaha), of an asset (the Ijara sukuk), of a project (sukuk istisna), of a business (sukuk musharaka) or of an investment (sukuk Istithmar).

The researchers of the Research Centre of the University of Turin are also studying the possibility for utilities companies to be present in an Islamic financial index and to issue Islamic sukuk to finance itself. "Our commitment - concludes Professor Biancone – is to do research that it is both stimulates and drives force for the development of the territory."

Barry Hoberman

Former managing editor of Biblical Archaeologist, holds history degrees from Harvard and Indiana Universities and now free-lances from Boston. Professor Hoberman has published articles on Middle Eastern and Central Asian history.

The First Muezzin

By Prof. Barry Hoberman

One of the most characteristic - and stirringly evocative - symbols of Islam is the adhan, the Arabic call to prayer, dramatically intoned by a muezzin from high atop a lofty minaret. Heard once, it is never forgotten.

The use of the adhan goes back to the lifetime of the Prophet Muhammad, and is mentioned once in the Koran, in connection with the Friday assembly:

O believers, when proclamation is made for prayer on the Day of Congregation, hasten to God's remembrance and leave trafficking aside; that is better for you, did you but know. - Sura 62:9

Muslim tradition supplies the story of how the adhan came to be used to announce the times of the five daily prayers. After the emigration of Muhammad and his followers from Makkah (Mecca) to Medina-which is called the Hijra - a believer named Abd Allah ibn Zaid had a vision in which he tried to buy a wooden clapper to summon people to prayer. But the man who had the clapper advised him to call out to the people instead and to cry:

God is most great! God is most great!
I testify that there is no god but God.
I testify that Muhammad is the Apostle of God.
Come to prayer! Come to prayer!
Come to salvation! Come to salvation!
God is most great! God is most great!
There is no god but God.

According to Ibn Ishaq, the eighth-century biographer of the Prophet, Ibn Zaid went to Muhammad with his story and Muhammad, approving, told him to ask an Ethiopian named Bilal, who had a marvelous voice, to call the Muslims to prayer. As Ibn Ishaq told the story (in Albert Guillaume's translation):

When the Apostle was told of this he said that it was a true vision if God so willed it, and that he should go to Bilal and communicate it to him so that he might call to prayer thus, for he had a more penetrating voice. When Bilal acted as muezzin, 'Umar I, who later became the second caliph, heard him in his house and came to the Apostle... saying that he had seen precisely the same vision. The Apostle said 'God be praised for that!'

Though slightly different versions of the story exist, all agree that Islam's first muezzin was Bilal. But who was this man whom the sources credit with such a key role in the nascent Muslim community?

Actually, very little is known. Bilal ibn Rabah, an Ethiopian, was born in Makkah sometime in the late sixth century, of very humble parentage, and was one of the first inhabitants of Makkah to accept the religion that a local merchant named

Muhammad - the Prophet - began to preach there around the year 610.
According to Ibn Ishaq, Bilal suffered for his immediate acceptance of Muhammad's message. In fact Bilal's master, Umayya ibn Khalaf reportedly, "would bring him out at the hottest part of the day and throw him on his back in the open valley and have a great rock put on his chest; then he would say to him, 'You will stay here till you die or deny Muhammad and worship al-Lat and al-'Uzza" (pre-Islamic goddesses).
Bilal, however, would not renounce Islam and eventually Abu Bakr, later the most distinguished of the Prophet's Companions and the first Caliph, rescued him.
In 622, the year of the Hijra, Bilal also migrated to Medina and over the next decade accompanied the Prophet on all military expeditions, serving, tradition says, as the Prophet's mace-bearer and steward, but also as a muezzin revered by Muslims for his majestically sonorous renditions of the adhan .
Bilal's finest hour came in January, 630, on an occasion regarded as one of the most hallowed moments in Islamic history. After the Muslim forces had captured Makkah, the Prophets muezzin ascended to the top of the Ka'ba to call the believers to prayer - the first time the call to prayer was heard within Islam's holiest city.
There is confusion about what happened to Bilal after the death of the Prophet in 632. Abu Bakr succeeded the Prophet as head of the Muslim community, and some sources say that Bilal acted as Abu Bakr's muezzin but subsequently declined to serve his successor, 'Umar ibn al-Khattab, in the same capacity. Other authors say the Prophets death signaled the end of Bilal's career as a muezzin, and that he called the faithful to prayer only twice more in his life - once in Syria, to honor the visiting 'Umar, and a second time, in Medina, when he was specifically asked to do so by the Prophet's grandsons.
What seems clear is that at some point Bilal accompanied the Muslim armies to Syria and that he died there between 638 and 642, though the exact date of death and place of burial are disputed.
Yet if there is some disagreement concerning the hard facts of Bilal's life and death, his importance on a number of levels is incontestable. Muezzin guilds, especially those in Turkey and Africa, have traditionally venerated the original practitioner of their noble profession, and African Muslims as a whole feel a special closeness and kinship to him; he was an Ethiopian, after all, who had been exceptionally close to the Prophet, and is a model of steadfastness and devotion to the faith. The story of Bilal, in fact, remains the classic and most frequently cited demonstration that in the Prophet's eyes, the measure of a man was neither nationality nor social status, but piety.

Source: Saudi Aramco World - July/August 1983

Sudan
The Land of Pyramids

By Prof. Krzysztof Grzymski

There are probably more pyramids in Sudan than can be found in all of Egypt. Yet the wonders of ancient Egypt are known worldwide, while those of its southern neighbor stand forgotten on the banks of the Nile. The checkered political history of Sudan, combined with the country's rugged terrain and lack of modern conveniences, has kept tourists away from some of the most romantic archeological sites in the world, among them several whole fields of pyramids.

The oldest Sudanese pyramids, dating back to the eighth century BC, stand near the modern city of Karima, downriver from the Fourth Cataract of the Nile. They were built for the kings of Kush, as the land was known in antiquity, who - after conquering Egypt around 730 BC - adopted the old pharaonic tradition of erecting monumental tombs for themselves and members of their families. These pyramids were smaller than the Egyptian ones, and were located near the Kushite capital city of Napata, which once existed in the neighborhood of Karima.

These Napatan conquerors of Egypt, despite their adherence to Egyptian customs and religious beliefs, preferred to be buried not in the land they won but near their home town; after their eventual expulsion from Egypt by the Assyrians, around 660 BC, they really had no other choice, and the» burials continued.

It was also near Napata that one of the most important temples in the entire Nile Valley, the Great Temple of Amun, had been erected by the Egyptian pharaohs in the 15th century BC, at the foot of an impressive mountain called Jabal Barkal. Its massive ruins can still be seen in the desert sands.

We owe our knowledge of the Sudanese pyramids to an American archeologist, George A. Reisner, who on behalf of the Boston Museum of Fine Arts and Harvard University spent several winters between 1916 and 1923 excavating the Napatan pyramids as well as

Krzysztof Grzymski

Born in Kalisz, Poland, Krzysztof Grzymski studied Mediterranean archaeology at the University of Warsaw and African archaeology at the University of Calgary. As a teacher, Krzysztof is particularly proud of offering courses in Egyptian and Nubian archaeology and culture at the University of Toronto and supervising the successful completion of several doctoral dissertations.

those at Meroe, a site only 210 kilometers (130 miles) north of Khartoum. While his work represented the first truly scholarly examination of these monuments, he was not the first to explore them. A hundred years before Reisner, various European travelers had passed by and left descriptions, often very detailed ones, of the Napatan and Meroitic pyramids (See box, page 9).

One of those travelers, an Italian doctor turned treasure-hunter by the name of Giuseppe Ferlini, went a step further and in 1834 began "exploring" the monuments. His goal was simple: to find the great treasures that rumor claimed were hidden inside the pyramids. According to his published account, he employed a very "efficient" - today we would say "barbarous" - method of conducting his treasure hunt: a laborious and systematic dismantling of the structures, one after another, from the top down. The tragedy, from the point of view of the modern archeologist, is that he did indeed find beautiful gold jewelry in one of the Meroe pyramids! These royal treasures eventually found their way to the museums in Munich and Berlin, and since that time have often been displayed in international exhibitions, such as the one that toured various American and European museums in 1978 (See Aramco World, July-August 1979). Fortunately, despite the explorations of Ferlini and his followers, many of the pyramids survived intact.

Reisner began the first legitimate archeological exploration of the pyramids in January 1916. As a scholar of great repute, the Sudan Railways provided him with a special first-class sleeping car, complete with kitchen, for his travel across the Nubian Desert from Wadi Haifa to Karima. The British governor of the time, Jackson Pasha - who, after a lifetime of service in Sudan, was eventually buried beneath a pyramid-shaped tombstone himself - offered the Americans a local government rest house, surrounded by a small garden, as living quarters.

During this first year in the field, the work concentrated on excavation of the Egyptian temple at Jabal Barkal and the pyramids located nearby. In the following campaigns, Reisner conducted a systematic investigation of the Napatan pyramids. The oldest, as we now know, were the pyramids of al-Kurru, followed by the cemetery of Nuri, while the two groups at Jabal Barkal were of much later date, contemporary with those of Meroe.

A common feature of all the pyramid fields was their location on high ground, as if to make up for their deficiency in size when compared to the Egyptian counterparts. They were built of sandstone blocks and gave no appearance of having interior burial chambers. These, as it turned out, were cut into the bedrock beneath the pyramid and were reached by a long stairway that began some distance in front of the pyramid and outside the wall that surrounded it. Above the stairway, abutting the pyramid itself, was erected an offering chapel, profusely decorated with reliefs depicting various religious scenes. The reliefs in the chapels and the painted decoration of the burial chambers were largely Egyptian in style, although some elements were more African in character.

While many of the pyramids were robbed in ancient and, as in Ferlini's case, in more recent times, there was still plenty to be discovered, as Reisner quickly learned. Thousands of small funerary statuettes called shawabtis, small gold objects, wooden coffins, inscribed stelae, hundreds of pots and many other objects came to light during Reisner's excavations and are now proudly displayed in the museums in Boston and Khartoum. They all bear witness to the high degree of artistic and economic development of this lost kingdom on the Nile.

Many of the earliest objects were inscribed with Egyptian hieroglyphs and thus provided clues to the identity of the owners, enabling Reisner and his assistant, Dows Dunham, to establish an outline of the royal chronology. Such clues, however, were not always available, and Reisner was faced with the double problem of identifying the "owners" of the remaining unassigned pyramids, and finding out where they probably fell in the regnal sequence. This task was further complicated by the introduction, in the third century BC, of a native writing system which, Jo this day, has not been deciphered (See Aramco World, July-August 1983).

Reisner's solution was remarkable in its simplicity; he simply assumed that the most attractive and visible position in any given cemetery had been occupied first, and that the succeeding burials had been arranged farther and farther away. By combining this locational approach with a stylistic and architectural analysis of the pyramids, Reisner was able to establish a chronology which, with modifications, is still used by historians today.

The modern visitor is less apt to travel to far-away Karima, but a day trip from Khartoum to Meroe is quite easy. Reisner himself worked on the three pyramid fields of Meroe (300 BC to AD 350), and other scholars excavated the ruins of Meroe city, which the well-known British writer Basil Davidson described as one of the largest archeological sites in the world. Since the Meroe pyramids are now a prime tourist attraction, the Sudanese authorities have launched a conservation and reconstruction program to make good the deeds of Ferlini and his ilk and to develop the site for tourists - including the restoration of some of the pyramids to their original state. However, tourists are not yet flocking to Meroe in great numbers. This makes the place uniquely attractive compared with other, usually overcrowded ancient sites, and gives the visitor a chance to admire some of the most magnificent monuments of the African continent in peaceful solitude. Spending a night in the desert under the beautiful southern sky, near pyramids built centuries ago for the powerful kings of Kush, is an experience without compare.

Source: Saudi Aramco World - July/August 1991

Year 5 - Issue 10
Quarterly
Publishing House
Al-Shirkah Sharia Sagl
www.shirkah-finance.com

Edited by
Al Warraq Finance Ltd
www.alwarraq-finance.com

Registered Office
Lugano - SWITZERLAND
Representative Office
Manama - BAHRAIN
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